IMPORTANT

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Extrawell Pharmaceutical Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

MAJOR AND CONNECTED TRANSACTION CONCERNING THE DISPOSAL OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Quam CAPITAL 華富嘉洛企業融資

A letter from the Board is set out on pages 7 to 48 of this circular. A letter from the Independent Board Committee is set out on page 49 of this circular. A letter from Quam containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 50 to 89 of this circular.

Notice of the SGM to be held at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Tuesday, 15 July 2014 at 3:00 p.m. is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

* *For identification purpose only*

27 June 2014

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Announcements"	the joint announcements of the Company and United Gene dated 18 March 2014 and 19 March 2014 in respect of the Disposal, the Disposal Agreement and the transactions contemplated thereby
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors of the Company
"Business Day(s)"	a day (excluding Saturday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
"BVI"	British Virgin Islands
"Capital Commitment"	the unsecured interest-free shareholder's loan to be advanced by the Purchaser to the Target Company, to further the research, development and commercialization of the Target Group's oral insulin technology, such expenses, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the oral insulin products and other administrative and general expenses and related capital commitments
"CFDA"	China Food and Drug Administration of the PRC formerly known as State Food and Drug Administration of the PRC
"Clear Rich" or "Purchaser"	Clear Rich International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of United Gene
"Commitment Period"	the period of 3 years from the Completion Date of the Disposal Agreement, during which the Purchaser undertakes, on a best endeavour basis, for the payment of the total capital commitment of the Target Company, with an aggregate amount not exceeding HK$600,000,000

"Company"	Extrawell Pharmaceutical Holdings Limited (精優藥業控股有限公司*) (stock code: 858), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
"Completion Date"	within 7 Business Days after the fulfillment of all conditions precedent under the sub-section headed "Conditions Precedent to Completion" of this circular or such other date as the Vendor and the Purchaser may agree in writing
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the sum of HK$780,000,000, being the sale price for the Sale Shares
"Continuing Connected Transaction"	the Purchaser's undertaking, on a best endeavour basis, as a term of the Disposal Agreement, for the total capital commitment of the Target Company for a period of 3 years from the Completion Date of the Disposal Agreement, with an aggregate amount not exceeding HK$600,000,000, for the future development of the Target Company, which is subject to requirements of reporting, announcement and approval by independent shareholders by United Gene under Chapter 14A of the Listing Rules
"Conversion Price"	HK$2.5 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds
"Conversion Shares"	new UG Shares to be issued and allotted by United Gene upon the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price
"Convertible Bonds"	the convertible bonds in an aggregate principal amount of HK$715,000,000 to be issued by United Gene in favour of the Vendor or its nominee(s) (as it may direct in writing) upon Completion with the interest of 3.5% per annum for a conversion period of 7 years from the date of issue

"Cooperation Agreement"	the cooperation agreement dated 19 October 2006 entered into among Welly Surplus, Fosse Bio and Sea Ascent for, among others, the acquisition of a piece of industrial land in Jiangsu Province, the PRC and the construction of the Plant thereon for the production of the Medicine
"Director(s)"	the director(s) of the Company
"Disposal"	the sale and purchase of 51% interest in the share capital of the Target Company by Clear Rich as the Purchaser and Extrawell BVI as the Vendor
"Disposal Agreement"	the conditional sale and purchase agreement dated 17 March 2014, with Extrawell BVI as Vendor and Clear Rich as Purchaser for the Disposal of an aggregate of 5,100 ordinary shares of HK$1 each in the issued share capital of the Target Company, representing 51% of the total issued capital of the Target Company
"EU"	the European Union
"Extrawell BVI" or "Vendor"	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Fosse Bio"	Fosse Bio-Engineering Development Limited, a company incorporated in Hong Kong with limited liability and is owned as to 51% by the Target Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song
"Independent Financial Adviser" or "Quam"	Quam Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) of the regulated activities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal

"Independent Shareholders"	the shareholders of the Company other than those required under the Listing Rules to abstain from voting on the resolution(s) to be proposed at the SGM to approve the Disposal Agreement and the transactions contemplated thereunder
"Last Trading Day"	13 March 2014, being the last full trading day on which the UG Shares were traded on the Stock Exchange prior to the publishing of the joint announcement of the Company and United Gene dated 18 March 2014
"Last Practicable Date"	23 June 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	18 July 2014 or such other date as the Vendor and the Purchaser may agree in writing for fulfillment of conditions precedent
"Maximum Capital Commitment"	the aggregate amount of total capital commitment of the Target Company not exceeding HK$600,000,000 which the Purchaser undertakes, on a best endeavour basis, to assume during the Commitment Period
"Medicine"	the oral insulin enteric-coated soft capsules, one of the oral insulin products developed by the Group through Fosse Bio in collaboration with Tsinghua University, Beijing, which the Group has completed part A of Phase III clinical trial protocol (the "Protocol") filed with the CFDA relating to the multi-centered, randomized, double-blinded and placebo-controlled clinical trial
"Nation Joy"	Nation Joy Industries Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
"Plant"	the pharmaceutical production plant to be constructed for the production of the Medicine pursuant to the Cooperation Agreement

"PRC"	the People's Republic of China which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	5,100 ordinary shares of HK$1 each of the Target Company representing 51% of the total issued capital of the Target Company
"Sea Ascent"	Sea Ascent Investment Limited, being the counterparty under the Cooperation Agreement and the SP Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGM"	a special general meeting to be held and convened to consider and, if thought fit, to approve by the Independent Shareholders, among others, the Disposal, the Disposal Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	the registered holder(s) of the Share(s)
"SP Agreement"	the conditional sale and purchase agreement dated 19 October 2006 and entered into between Welly Surplus and Sea Ascent for the acquisition of the entire equity interest in, and shareholder's loan to Joy Kingdom Industrial Limited which, pursuant to the Cooperation Agreement, shall establish a company in the PRC for the construction of the Plant
"Specific Mandate"	the specific mandate for the allotment and issue of the Conversion Shares to be granted to the directors by the independent shareholders of United Gene at the relevant special general meeting
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong

"Target Company" or "Smart Ascent"	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability, the entire issued capital of which is owned by Extrawell BVI
"Target Group" or "Smart Ascent Group"	the Target Company or Smart Ascent and its subsidiaries
"United Gene"	United Gene High-Tech Group Limited (聯合基因科技集團有限公司) (stock code: 399), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"United Gene Group"	United Gene and its subsidiaries
"United States" or "US"	the United States of America
"UG Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of United Gene
"USFDA"	The Food and Drug Administration of the United States
"US$"	United States dollars, the lawful currency of the United States
"Welly Surplus"	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability and is owned as to 51% by the Target Company
"%"	per cent

For the purpose of this circular, unless otherwise stated, conversion of RMB into HK$ is based on the approximate exchange rate of RMB1 to HK$1.235. The exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates at all.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

Executive Directors:
Dr. Xie Yi
Dr. Lou Yi
Mr. Cheng Yong
Ms. Wong Sau Kuen
Mr. Liu Kwok Wah

Independent non-executive Directors:
Mr. Fang Lin Hu
Mr. Xue Jing Lun
Ms. Jin Song

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Suites 2206–08, 22nd Floor
Devon House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

27 June 2014

MAJOR AND CONNECTED TRANSACTION CONCERNING THE DISPOSAL OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED AND NOTICE OF SPECIAL GENERAL MEETING

To the Shareholders

Dear Sir or Madam,

1. INTRODUCTION

Reference is made to the announcements of the Company dated 7 March 2014 and 14 March 2014 and the joint announcements made by the Company and United Gene on 18 March 2014 and 19 March 2014. Since 25 February 2014, the Company has been approached by United Gene to express its intention to acquire certain shareholdings of the Target Company. On 17 March 2014, the Purchaser and the Vendor entered into the Disposal Agreement in relation to the sale and purchase of 51% interest in the share capital of the Target Company, the holding company for the

* *For identification purpose only*

Group's oral insulin operations. Completion of the Disposal Agreement is conditional upon, among others, the conditions precedent set out in the Disposal Agreement being satisfied on or before Long Stop Date.

The Consideration shall be HK$780,000,000, as payable upon Completion and to be satisfied by the Purchaser to the Vendor by the issuing of Convertible Bonds by United Gene for the principal amount of HK$715,000,000 and cash payment of HK$65,000,000, in the manner as set out below.

The Purchaser's Undertaking for Capital Commitment for the Commitment Period

As a term of the Disposal Agreement, the Purchaser has undertaken to the Vendor, on a best endeavour basis, that for a period of 3 years from the Completion Date of the Disposal Agreement, the Purchaser, shall solely assume the total future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Group's future development of its oral insulin technology.

Major and Connected Transaction for the Company

As the applicable percentage ratios in respect of the Disposal are higher than 25% but below 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, United Gene holds approximately 19% of shareholding of the Company and is hence a connected person of the Company (within the meaning of the Listing Rules), the Disposal and the entering into the Disposal Agreement and the transactions contemplated thereunder constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The Disposal is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

This circular containing, among other things, (i) further information on the Disposal and the Disposal Agreement as a connected transaction; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders ; and (iv) a notice of the SGM.

2. THE DISPOSAL AGREEMENT

Date 17 March 2014

Parties

Purchaser: Clear Rich, a wholly-owned subsidiary of United Gene

Vendor: Extrawell BVI, a wholly-owned subsidiary of the Company

Assets to be disposed by the Vendor

The Sale Shares, representing 51% of the issued share capital of the Target Company. The original acquisition cost of the Sale Shares paid by the Group was approximately HK$373,830,000.

Consideration

The Consideration shall be HK$780,000,000 and shall be payable by Clear Rich to the Vendor upon Completion in the following manner:

(i) an aggregate sum of HK$715,000,000 shall be payable by issue of the relevant Convertible Bonds by United Gene in the principal amount of HK$715,000,000 to Vendor or its nominee(s) (as it may direct in writing) upon Completion; and

(ii) an aggregate sum of HK$65,000,000 shall be payable in cash by Clear Rich to Vendor (or its nominee(s) as it may direct in writing) upon Completion.

According to United Gene, the cash portion of Consideration is expected to be financed by internal resources of United Gene Group.

Conditions precedent to Completion

Completion is conditional upon the following conditions being fulfilled or, as the case may be, waived:

(i) no takeover implication or obligations having been triggered under the Takeovers Code;

(ii) no "reverse takeover" (as defined under the Listing Rules) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange;

(iii) no implication or obligation (including but not limited to trading halt and/or suspension of trading of shares) on the Company concerning sufficiency of operations or assets and/or cash company issue under all relevant Listing Rules (including but not limited to Listing Rules 13.24 and 14.82) having been triggered or ruled by the Listing Committee/Division of the Stock Exchange;

(iv) the Purchaser being satisfied with the results of the due diligence exercise on the Target Group, including but not limited to their respective businesses, assets, liabilities, operations or other status which the Purchaser thinks necessary and appropriate to conduct;

(v) the Purchaser being satisfied with the relevant valuation report on the shares and/or the oral insulin related investments of the Target Company by an independent valuer specified by the Purchaser;

(vi) no adverse change in the business and/or financial or trading positions or prospects and/or status of any license(s) and/or rights of the Target Group;

(vii) the board of directors of United Gene having approved and authorized the transactions contemplated under the Disposal Agreement, the Continuing Connected Transaction and the issue of the Convertible Bonds by United Gene, the allotment and issue of the Conversion Shares by United Gene under the Specific Mandate;

(viii) the Board having approved and authorized the transactions contemplated under the Disposal Agreement;

(ix) the passing of the necessary resolution(s) by the shareholders of United Gene at the relevant special general meeting approving the Disposal Agreement, the allotment and issue of the Conversion Shares by United Gene under the Specific Mandate and the transactions contemplated hereunder;

(x) the passing of the necessary resolution(s) by the independent shareholders of United Gene at the relevant special general meeting approving the Continuing Connected Transaction by United Gene;

(xi) the passing of the necessary resolution(s) by the Independent Shareholders at the SGM approving the Disposal Agreement by the Vendor and the transactions contemplated hereunder;

(xii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares;

(xiii) none of the undertakings, negative pledges, warranties and representations of the Vendor contained in the Disposal Agreement having been breached in any material respect or being misleading or untrue in any material respect;

(xiv) all necessary governmental and regulatory approvals or consents (or waivers), including but not limited to those from the Stock Exchange and/or the SFC, required by the Vendor and the Purchaser or any of them for the consummation of the transactions contemplated herein having been obtained; and

(xv) all necessary third party approvals or consents (or waivers) required by the Vendor and the Purchaser or any of them for the consummation of the transactions contemplated herein having been obtained.

The Purchaser may waive conditions (iv), (vi) and (xiii) above at its discretion. To the best of knowledge, information and belief of the Directors, the Purchaser has no present intention to waive such conditions. If any of the conditions set out above has not been satisfied (or, as the case may be, waived by the Purchaser) on or before Long Stop Date, the Disposal Agreement shall cease and determine (save for the provisions in respect of confidentiality thereunder) and none of the parties shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms of the Disposal Agreement.

The Purchaser shall use its reasonable endeavours to procure the holding of the relevant special general meeting for the purpose of fulfilling the conditions precedent set out in (ix) and (x) above by Long Stop Date and to ensure that the conditions precedent set out in (ix), (x), (xiv) and (xv) above (in so far as obtaining approvals or consents or waivers by the Purchaser is concerned) shall be fulfilled by Long Stop Date. The Vendor and the Purchaser undertake to provide such information and documents to the other to evidence full satisfaction of the conditions precedent above which it shall use its reasonable endeavours to procure or ensure fulfilment before Long Stop Date.

If any of the above conditions precedent has not been fulfilled by Long Stop Date, either the Vendor or the Purchaser shall be entitled to rescind the Disposal Agreement by giving 3 Business Days' prior written notice to the other whereupon the relevant provisions of the Disposal Agreement shall from such date have no further force and effect and no party to the Disposal Agreement shall have any liability under them (without prejudice to the rights of the parties to Disposal Agreement in respect of any antecedent breaches).

The Purchaser's Undertaking for Capital Commitment for the Commitment Period

As a term of the Disposal Agreement, Clear Rich has undertaken to the Vendor, that for a period of 3 years from the Completion Date of the Disposal Agreement, Clear Rich shall, on a best endeavour basis, solely assume the total future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Group's future development, conditional upon and subject to, amongst others:

(i) the availability of funding of the Purchaser;

(ii) the Capital Commitment provided for each year ending 31 March, as set out below, subject to variations as may be agreed between the Purchaser and the Vendor in writing;

(iii) the Capital Commitment shall be provided to the Target Company only on a needed and necessary basis;

(iv) the relevant approval of independent shareholders of United Gene at the relevant special general meeting;

(v) the relevant approval of Independent Shareholders at the relevant SGM (if applicable);

(vi) the relevant necessary approval, authorizations or consent from relevant regulatory organization(s) and/or governmental department(s), such as the Stock Exchange and/or the SFC (if applicable);

(vii) the Capital Commitment received by the Target Company shall only be used to pay for the relevant expenditure incurred for the purpose to further the research, development and commercialization of the Target Group's oral insulin technology, such expenses, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the oral insulin products and other administrative and general expenses and related capital commitments; and

(viii) the Capital Commitment shall not be applied nor used in any event, without the written consent of the Purchaser, for the repayment of any liability, debt and/or loan of the Target Group whether such liability or loan is actual or contingent, primary or collateral and several or joint.

Accordingly, the proposed Capital Commitment, the maximum aggregate annual values (proposed annual cap) payable by the United Gene Group for the financial years ending 31 March 2015, 31 March 2016 and 31 March 2017 shall be as follows:

Period	**Aggregate Annual Cap** *HK$* *(approximate)*
For the year ending 31 March 2015	200,000,000
For the year ending 31 March 2016	500,000,000
For the year ending 31 March 2017	600,000,000

According to United Gene, the Capital Commitment was determined based on the potential maximum needs of the future development of the Medicine, it anticipated that the maximum cost to develop and commercialize the Medicine would involve approximately HK$250 million for clinical trials including the PRC, the United States and Europe, approximately HK$250 million as fund for working capital of inventory and HK$100 million as capital expenditure on plant and machinery for the two factories preliminary proposed to be located in Jiangsu Province of which one is preliminary proposed to be located in Nanjing City.

Further, the annual caps for the Capital Commitment were proposed by United Gene having reference to the anticipated maximum costs to develop the Medicine during the Commitment Period. It was anticipated by United Gene, subject to adjustment as it may deem necessary from time to time, that the Capital Commitment for the years ending 31 March 2015, 2016 and 2017 would be spent as follows:

	2015 *(HK$'000)*	**2016** *(HK$'000)*	**2017** *(HK$'000)*
Research & Development ("R&D")			
PRC research & development costs for clinical trial & pre-marketing	65,000	—	—
US administrative costs *(Note 1)*	—	10,000	11,500
US research & development costs for clinical trial & relevant scientific experiments costs	32,400	52,000	15,000
EU administrative costs *(Note 1)*	—	21,000	20,000
EU research & development costs for clinical trial & relevant scientific experiments costs	—	17,000	3,500
Anticipated annual R&D spending	97,400	100,000	50,000
Capital Expenditure ("CAPEX")			
Factory 1	20,000	—	—
Machinery for factory 1	30,000	—	—
Factory 2	20,000	—	—
Machinery for factory 2	30,000	—	—
Anticipated annual CAPEX spending *(Note 2)*	100,000	—	—
Working Capital			
Inventory working capital	2,600	200,000	50,000
Anticipated working capital spending	2,600	200,000	50,000
Aggregated anticipated spending	200,000	300,000	100,000

Note 1 : According to United Gene, US and EU administrative costs represent costs including but not limited to rental, office, salary of supporting staffs.

Note 2 : CAPEX spending primarily refers to spending on plant and machinery for the factories. According to United Gene, upon Completion, United Gene preliminarily plans to engage relevant experienced architects and consultants for the design of the factories and the construction plan in July 2014 for operation in June 2015. Detailed plan is subject to the hiring of relevant consultants upon Completion.

As mentioned above, Clear Rich's undertaking to the Vendor to provide the Capital Commitment to the Target Company is on a best endeavour basis and is subject to various conditions, including but not limited to, the availability of funding of the Purchaser. In the event Clear Rich has exercised its best endeavour but still could not satisfy the Capital Commitment it will not constitute any breach of its undertaking, however, on the contrary if Clear Rich failed to exercise its best endeavour to provide the Capital Commitment to the Target Company in accordance with the terms and conditions of the Disposal Agreement, it would constitute a breach of the Disposal Agreement and in such event the Company would seek legal advice to consider taking appropriate action and seeking appropriate recourse against Clear Rich in order to protect the interest of the Vendor and the Company.

Under the Disposal Agreement, Clear Rich shall not demand any repayment of the Capital Commitment from the Target Company either in full or in part, until the Target Group has registered operation profits and the maximum amount that Clear Rich may request or demand the Target Group for repayment of the Capital Commitment in each year shall not exceed 30% of the net profit of the Target Group. The Purchaser further undertakes and acknowledges that Extrawell BVI will not be required to contribute capital to the Target Company until the time that the Purchaser has fully paid the Maximum Capital Commitment. Subject to the Target Group having generated net profit in a year, Clear Rich may request the Target Company to repay it with an amount not exceeding 30% of the net profit of the Target Group in that year and such exercise may be requested and demanded by Clear Rich until full settlement of the Capital Commitment made by Clear Rich to the Target Company.

In the event that despite full payment of the Capital Commitment by Clear Rich to the Target Company, it is insufficient to complete the research, development and commercialization of the Target Group's oral insulin technology, the Company will negotiate with United Gene on the arrangement for future funding to the Target Company for further plan on the research, development and commercialization of the Target Group's oral insulin technology based on the then prevailing market conditions for the Medicine and the then financial positions of the Company and United Gene.

Completion

Subject to the fulfilment of all the Conditions Precedent, Completion shall take place on or before 5:00 p.m. of the Completion Date.

Principal terms of the Convertible Bonds

The principal terms of Convertible Bonds are summarized below:

Principal amount	:	An aggregate principal amount of up to HK$715,000,000
Maturity date	:	7th anniversary of the date of issue ("**Maturity Date**")
Interest	:	3.5% per annum
Conversion Price	:	The Conversion Price is HK$2.5 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds. The Conversion Price of HK$2.5 represents: (i) a premium of approximately 73.61% to the closing price of HK$1.44 per UG Share as quoted on the Stock Exchange on the last trading date of signing of the Disposal Agreement; (ii) a premium of approximately 68.24% to the average closing price of HK$1.486 per UG Share as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to the date of signing of the Disposal Agreement; (iii) a premium of approximately 70.53% to the average closing price of approximately HK$1.466 per UG Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of signing of the Disposal Agreement; and (iv) a premium of approximately 273.13% to the net asset price of approximately HK$0.67 per UG Share, calculated based on the unaudited consolidated net assets of HK$765,681,000 as at 31 December 2013 and 1,136,193,024 UG Shares in issue as at the date of the Disposal Agreement.

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The Conversion Price for the Convertible Bonds was determined after arm's length negotiations between the Purchaser and the Vendor, with reference to United Gene Group's existing financial position and current market conditions.

Adjustment events : The Conversion Price shall from time to time be adjusted upon occurrences of certain events, including but not limited to the followings:

(i) consolidation or sub-division of UG Shares;

(ii) capitalization of profits;

(iii) capital distribution;

(iv) issue of UG Shares by way of rights, options and warrants;

(v) issue of any securities if and whenever United Gene shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for UG Shares;

(vi) modification of rights of conversion or exchange or subscription attaching to any such securities;

(vii) issue of UG Shares wholly for cash at more than 20% discount to the market price of such UG Shares; and

(viii) issue of UG Shares for acquisition of asset at more than 20% discount to the market price of such UG Shares.

Conversion Shares : Based on the initial Conversion Price of HK$2.5, a maximum number of 286,000,000 Conversion Shares will be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds, which represent:

(i) approximately 25.17% of the total issued share capital of United Gene as at the date of the joint announcement of the Company and United Gene dated 18 March 2014; and

(ii) approximately 20.11% of the total issued share capital of United Gene as enlarged by the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to Convertible Bonds.

The Conversion Shares shall be allotted and issued under the Specific Mandate to be approved by the independent shareholders of United Gene at the relevant special general meeting.

Conversion Rights : Each holder of the Convertible Bonds shall have the right, exercisable during the Conversion Period (as defined below) to convert the whole or any part (in multiples of HK$35,750,000) of the outstanding principal amount of the Convertible Bonds held by such holder of the Convertible Bonds into such number of Conversion Shares as will be determined by dividing the principal amount of the Convertible Bonds to be converted by the Conversion Price in effect on the date of conversion.

No fraction of a UG Share shall be issued on conversion of the Convertible Bonds and no cash adjustments will be made.

Conversion Restrictions : Upon exercise of the conversion rights attaching to the Convertible Bonds,

(i) the holders of Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and

(ii) the public float of United Gene will not be unable to meet the relevant requirements under the Listing Rules.

Conversion Period : The period commencing from the date of issue of the Convertible Bonds and ending on the day which falls on the 7th anniversary of the date of issue of the Convertible Bonds.

Early Redemption : United Gene shall not be entitled to redeem all or part of the outstanding Convertible Bonds prior to the Maturity Date.

Furthermore, according to the instrument constituting the Convertible Bonds, the holders of the Convertible Bonds do not have the right to early redemption of all or part of the outstanding Convertible Bonds prior to the Maturity Date.

Ranking : The Conversion Shares shall rank pari passu in all respects among themselves and with all other existing UG Shares outstanding at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.

Transferability : Any transfer of the Convertible Bonds shall be in respect of the whole or any part (in multiples of HK$35,750,000) of the principal amount of the Convertible Bonds.

Furthermore, according to the instrument constituting the Convertible Bonds, the Convertible Bonds must not be transferred to any person, firm or company which is a connected person (as defined in the Listing Rules) of United Gene except in compliance with the applicable requirements under the Listing Rules and the Takeovers Code.

Application for listing	:	No application will be made by United Gene to the Stock Exchange for listing of the Convertible Bonds. Application will be made by United Gene to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
Notice of conversion by other bondholders	:	United Gene may, upon request by the holders of the Convertible Bonds in writing, notify the holders of the Convertible Bonds about the conversion of the convertible bonds of United Gene by other bondholders within 7 Business Days from the date of receipt of the relevant conversion notice.

3. BASIS FOR DETERMINING THE CONSIDERATION

The Consideration was determined after arm's length negotiation between the Group and the Purchaser, with reference to, amongst others:

(i) the original acquisition costs of the Target Company, as to 51% and 49% by the Group in 2004 and 2013 respectively at the considerations of approximately HK$73,000,000 and HK$660,000,000;

(ii) the value of the Target Group as at 28 February 2013 as appraised by Castores Magi Asia Limited ("**Castores Magi**") on its valuation report dated 18 June 2013;

(iii) the consolidated net asset value of the Target Company as at 31 March 2013 of approximately HK$254,000,000 (approximately HK$281,500,000 of which represents the intangible assets of technological know-how in relation to the Medicine);

(iv) the historical financial position and performance of the Target Company with no revenue for the financial years ended 31 March 2013 and 31 March 2012 and consolidated net losses both before and after taxation of approximately HK$4,600,000 and HK$6,600,000, respectively;

(v) the future prospects of the Target Company and the progress of the clinical trial of the Medicine in the course of its negotiation of the terms of the Disposal Agreement with the Purchaser including the Maximum Capital Commitment that the Purchaser has undertaken to make to the Target Company within the Commitment Period be applied in the aspects of research and development of oral insulin products, particularly for purpose of clinical trials in the United States and Europe, and for capital expenditure and working capital requirements; and

(vi) the synergy effect that United Gene may bring by the deploying its scientific expert to promote the Medicine beyond the PRC to markets in the United States and Europe.

Nevertheless, the Group had not taken into account the valuation report prepared by Castores Magi as set out in Appendix II to the circular at the time of negotiation as it was not available to the Group at the time.

The respective valuation amounts of the Target Group as at 28 February 2013 and 28 February 2014 are HK$2,519,000,000 and HK$1,938,000,000 as appraised by Castores Magi on its valuation reports dated 18 June 2013 (the "**2013 Valuation Report**") and 27 June 2014 (the "**2014 Valuation Report**").

It is noted that despite the estimated diabetic population has increased by about 5 million and there has been an increase of about 2% in the selling price of the Medicine in the 2014 Valuation Report against the 2013 Valuation Report, the postponement of production of the Medicine for a year and a corresponding increase of about 4% in the cost of sales, and given the change of market derived discount rate has increased from 15% in 2013 to 18.2% in 2014, the amount of valuation of the Target Group has decreased from HK$2,519,000,000 as at 28 February 2013 to HK$1,938,000,000 as at 28 February 2014.

Please refer to the section headed "Reasons for and benefits of the Disposal and proposed use of proceeds" for further details.

It is noted that the Consideration represents a discount of about 21% to the appraised market value of the Sale Shares as at 28 February 2014, the Convertible Bonds represent 92% of the Consideration and has a maturity of 7 years; and the significant premium of the Conversion Price at HK$2.50 to the closing price of UG Share at HK$1.44 on the last trading date of signing of the Disposal Agreement. During the negotiation process between the Company and United Gene on the terms and conditions of the Disposal Agreement, the Directors had requested United Gene to settle the Consideration by alternative means of payment including but not limited to settle the entire Consideration in cash or by combination of cash and consideration shares and at the end the settlement method of HK$65 million in cash and HK$715 million by the issuance of the Convertible Bonds was reached between the Company and United Gene after arm's length negotiation which was acceptable by both parties to the Disposal Agreement. Notwithstanding the aforesaid, as the Convertible Bonds are interest bearing, the Consideration of HK$780 million when aggregated with the other monetary benefits resulting from the Disposal including the coupon interest income of approximately HK$175 million in aggregate throughout the terms of the Convertible Bonds given that it is the current intention of the Company to hold the Convertible Bonds upon maturity; and the savings on the planned expenditure of approximately HK$26 million on the clinical trials of the Medicine to be incurred before obtaining of the approval of production and of approximately HK$7.4 million for pre-marketing efforts before commercial manufacturing and distribution of the Medicine, the Consideration is comparable to the appraised market value of the Sale Shares as at 28 February 2014. The Board will from time to time review the price of the UG Shares and the market conditions and the financial position of the Group, and will consider whether it is beneficial to the Company to convert the Convertible Bonds and dispose the UG Shares should the price of the UG Shares raise above the Conversion Price and the Company will comply with the relevant requirements under the Listing Rules when the Company converts the

Convertible Bonds and/or disposes of the UG Shares. Taking into account the aforesaid overall benefits derived from the Disposal and any potential gain that the Company may take in the event the price of UG Shares raises above the Conversion Price of the Conversion Shares, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the Consideration and its settlement method are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. INFORMATION ON THE PURCHASER AND UNITED GENE

Clear Rich International Limited is a wholly-owned subsidiary of United Gene and is principally engaged in investment holding.

United Gene is an investment holding company and its subsidiaries are principally engaged in the distribution of genetic testing services and bio-industrial products and trading of beauty products and equipment.

As indicated in the circular of United Gene dated 26 April 2013 concerning the placing of convertible bonds in the principal amount of HK$74,000,000 and the subscription of convertible bonds in the principal amount of HK$59,000,000, since 2010, United Gene has been in the process of considering and assessing a number of investment opportunities concerning business relating to health care, pharmaceutical and biotechnology, including but not limited to oral insulin.

As at the date of the Latest Practicable Date, United Gene holds approximately 19% of shareholding of the Company and hence is a connected person of the Company (within the meaning of the Listing Rules).

5. INFORMATION ON THE TARGET GROUP

The Target Group primarily aims to manufacture, market and distribute the Medicine through distributors who then resell the Medicine on a nationwide basis. The key distribution target includes hospitals (including clinics) and drug stores, and through their distribution network it can be extended to pharmacies and other retail outlets for easier access and purchase by patients with doctor's prescription. Further information of each company within the Target Group are set out below.

The Target Company

The Target Company is a private company incorporated in Hong Kong with limited liability, and an indirect wholly-owned subsidiary of the Company, having an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1 each, all of which have been issued and are fully paid and beneficially owned by the Vendor as at the date of this circular. The original acquisition cost of the Sale Shares paid by the Group was approximately HK$374 million.

The Target Company is principally engaged in investment holding and is the holding company for the Group's oral insulin operations. The material assets of the Target Company are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of the Target Company, and Nation Joy, being a wholly-owned subsidiary of the Target Company.

The consolidated net asset value of the Target Company was approximately HK$254,000,000 as at 31 March 2013. For the financial years ended 31 March 2013 and 31 March 2012, the consolidated net losses both before and after taxation of the Target Company amounted to approximately HK$4,600,000 and HK$6,600,000, respectively. The Target Company recorded no revenue for either financial year.

Upon Completion, the Target Company will be owned as to 51% by United Gene and become an indirect non wholly-owned subsidiary of United Gene. The financial results of the Target Company will become consolidated into the financial statements of United Gene Group and, at the same time, the Target Company will cease to be a subsidiary of the Group. The Company will retain 49% equity interest in the Target Company as investment.

Fosse Bio

Fosse Bio is principally engaged in the research and development and commercialization of oral insulin products since its establishment in 1998. Fosse Bio and Tsinghua University, Beijing entered into the agreements in 1998 (the "**THU Collaboration Arrangement**") in connection with the research and development of the oral insulin products, including the Medicine. Pursuant to the THU Collaboration Arrangement, Fosse Bio will be entitled to commercialize the relevant technologies of the oral insulin products and to manufacture and sell the oral insulin products on an exclusive basis, and Tsinghua University, Beijing, is entitled to 1.5% of Fosse Bio's annual sales upon commercialization of the oral insulin products. Under the joint research and development by Fosse Bio and Tsinghua University, Beijing under the THU Collaboration Arrangement, an invention "一種製備口服胰島素油相製劑的方法" (a method of production of oil-phase preparation of oral insulin) (the "**Relevant Technologies**") was patented in the PRC in 2004 and in the United States in 2006, which will be expired in April 2021 and April 2022 respectively.

Information on the Medicine

Insulin, which is a kind of protein, is medically used as an effective diabetic treatment and the insulin drugs are currently available in injection form. The formidable task of administering insulin orally has been pursued over the last several decades with a view to ease the pain and stress caused during delivery of insulin injections to the diabetic patients worldwide. Since insulin is a protein which is digested and destroyed in the stomach and intestine by digestive enzymes, and cannot penetrate by itself through the wall of intestine into blood vessels, researchers have to overcome these obstacles to enable insulin delivery by oral route which is considered to be a more convenient, safer and painless way of administration, facilitating better patient compliance and can also help improving quality of life of patients.

The Relevant Technologies are registered with patent under the joint names of Fosse Bio and Tsinghua University, Beijing under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration in 2004) and US 7,018,980 B2 (in respect of the United States patent registration in 2006), expiring in April 2021 and April 2022 respectively, and such technologies involve the use of a fine micro-emulsion particle by combining protein with lipids, which can protect the protein from being digested and enable the protein to pass through the wall of digestive tract to the liver (major area in the body where the function of insulin takes place) through portal vein. Oral insulin product (as the Medicine) in soft capsule, oral dosage form, is one of the oral insulin products co-developed by Fosse Bio and Tsinghua University, Beijing and is intended for use in type 1 and type 2 diabetes patients. The Medicine will be sold as a prescription drug and targets on customers currently taking insulin injection and/or OADs and those prospective customers who may not take injectable insulin or OADs at all due to various reasons e.g. pain, inconvenience, complications, and resistance to insulin through injection or side effects from taking OADs.

Stage of Development of the Medicine

After satisfactory results from pre-clinical studies, the formulation of the Medicine was approved by CFDA for clinical trials in 2003. The phase I clinical trial was designed to assess the safety of the drug, and was tested on a small number of healthy human testing subjects who did not suffer from diabetes. The phase I clinical trial was undertaken by a team of clinical experts in the National Pharmacology Research Base of the Peking Union Medical College Hospital (北京協和醫院). The phase I clinical trial was completed in early 2004. The results of phase I clinical trial indicated that oral insulin is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is safe for application.

Phase II clinical trial aims at further verifying the medical effects of the oral insulin in bringing down the glucose level and its safety in application to diabetic patients. From October 2004, the phase II clinical trial had been undertaken in the five CFDA authorized medical centers, namely Beijing Union Medical College Hospital, Beijing Tongren Hospital, the First Clinical Hospital of China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong University, Jinan, under the leadership of Beijing Union Medical College Hospital. At the end of year 2005, the phase II clinical trial had been completed with encouraging results issued by the above five medical centers. The result had been submitted to CFDA for approval in 2006 and CFDA indicated that additional clinical trial was required before the final assessment and approval of the Medicine. In respect of the next phase of the clinical trial, CFDA imposed more stringent requirements which include a requirement for a larger sample group of patients, and the use of double-blind tests where neither the patients nor the researchers have knowledge on which patients belong to the treatment group (where patients will be given the Medicine) or the control group (where patients will be given placebo), with a view to reducing experimental bias during the next phase clinical trial.

In light of the above, the Phase III clinical trial Protocol ("**Protocol**") has been designed by recognized clinical trial bases and led by the Peking University People's Hospital in the PRC, which consists of two parts. Part A of the Protocol relates to the multi-centered, randomized, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of Type 2 diabetes. With reference to the benchmark indicators, in particular, on the effect of reducing blood glucose level in diabetics through absorption of the Medicine into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the Medicine in the treatment group (where patients were given the Medicine) was significantly superior to that of the control group (where patients were given placebo). Part A of the Protocol has been completed with satisfactory results in February 2013. In order to further validate the efficacy of the use of the Medicine in more diabetic testees, Fosse Bio is working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine, among others, in larger scale of participating cases contemplated in the Protocol filed with the CFDA.

As disclosed in the circular of the Company dated 18 June 2013 (the "**2013 Circular**"), it was expected that the part B of the clinical trial contemplated in the Protocol will be completed with report for results thereof for evaluation by the CFDA in around January 2015 and the commencement of manufacturing of the Medicine will be in the second half of 2015 following satisfactory assessment by the CFDA. Since then, the project team has been conducting preparatory work for the clinical trial including but not limited to manufacturing of additional testing drugs for clinical trial purpose and through the project administrator, has been liaising with hospitals and selecting participating hospitals to be led by the Peking University People's Hospital, formulating standard operation procedures and technical guides for their study and finalization to enable criteria set for effective execution. Nevertheless, during the planning of the extended clinical trial by the project team, taking the advice by the clinical experts, that the participating clinical trial base shall cover wider geographical regions in the PRC to enable representative sampling results which shall sustain a solid foundation for the clinical data to be obtained and therefore facilitate the approval process by CFDA. Given the above, more time and coordination efforts are required in the selection of participating hospitals as originally expected in order to ensure effective implementation of the part B clinical trial among the participating hospitals, and as such the commencement of the said clinical trial which was originally expected to be in or around July 2013 has to be postponed. Notwithstanding the aforesaid, with the additional efforts by the project team, it is currently estimated that the extended clinical trial based on part B of the Protocol will commence in or around July 2014 and report on the results of the clinical trial is expected to be submitted for assessment by CFDA in or around January 2016, and subject to satisfactory assessment by the CFDA which to the best estimate of the Company, approval is expected to be obtained in or around June 2016, the commencement of manufacturing and sales of the Medicine will be in October 2016. Given the available resources which the Group could allocate for the development of the Medicine having regard to the current financial position of the Group, above is the best estimated timetable that the Group can achieve.

According to United Gene, after the Completion, United Gene will assume management control over the Target Group including Fosse Bio and with the availability of funding for the Capital Commitment, United Gene has planned to shorten the timetable for the development of the Medicine in the PRC and to obtain approval of the Medicine in the PRC to June 2015 and the commercial manufacturing and sales of the Medicine in the PRC to November 2015 by proposing, subject to change and confirmation of United Gene, to: (1) conduct multiple clinical trials by contracting sixteen hospitals concurrently, i.e. twice the number of hospitals the Company has originally planned; (2) hire four to six additional supervisors to coordinate and operate the clinical trials in conjunction with the contract research organization and the increased number of hospitals; and (3) utilize the multi-regional clinical trial pathway that involves starting Phase 1 in the United States or Europe to reduce the approval time by the PRC government.

To the best knowledge, information and belief of the Board, given United Sates is a more developed country and USFDA has a longer history. According to United Gene, USFDA has more experience and expertise in processing new drugs applications, moreover, as officers of CFDA have attended training programmes provided by the USFDA regularly, it is believed that if a new drug is being approved by the USFDA, the drug will have a higher possibility of obtaining earlier approval by the CFDA, as it is expected that CFDA will consider the relevant clinical trial data and will be more receptive in reviewing those clinical data which may help to reduce the number of queries expected to be raised by CFDA as compared with clinical trials being conducted in the PRC alone.

According to United Gene, Dr. Yu Wei Ping ("**Dr. Yu**"), the joint chairman to the Department of Innovation and Strategic Development of United Gene, has already provided necessary advice to United Gene concerning the process and procedure requirements for conducting clinical trials in the United States that upon Completion, United Gene will initiate clinical trials in the United States in July 2014 and it will closely monitor the progress of the clinical trials in the United States with the Contract Research Organization (hereinafter known as "CRO") in the United States and it will use its best endeavour to expedite the progress of the clinical trials in the United States.

As announced by United Gene on 31 October 2013, Dr. Yu, was aged 55, holds a Doctor of Science in Pharmaceutics from the Centre d' Etude Pharmaceutique, Université de Paris-Sud, France, a Master of Science in Pharmaceutics from the Shanghai Institute of Pharmaceutical Industry, the PRC and a Bachelor of Science in Pharmacy from Shanghai Traditional Medical University, the PRC. Dr. Yu has extensive experience in the pharmaceutical and biotechnological industry. Dr. Yu was a senior director at Celsion Corporation, U.S.; director at Adherex Technologies Inc., Canada and senior scientist at Valentis, Inc., U.S.. According to United Gene, Celsion Corporation, U.S., Adherex Technologies Inc., Canada and Valentis, Inc., U.S. are corporations engaged in the businesses relating to pharmaceutical products and new drugs application and Dr. Yu possesses substantial experience in the U.S. market and has extensive experience in the pharmaceutical and biotechnological industry. Dr. Yu is the Chief Scientific Officer of Xian Libang

Pharmaceutical Limited and Vice-President of Xian Libang Pharmaceutical Industry Group Limited within the Xi'an Libang Enterprises Group. The Xi'an Libang Enterprises Group is a high-tech biopharmaceutical-oriented corporate group specializing in the development, production and distribution of over 100 pharmaceutical and nutritional products with its research teams and network of professionals in Canada, China and the U.S., as to facilitate the timely approval of their PRC pharmaceutical products, Dr. Yu is experienced in using multi-regional clinical pathway and obtaining approval for medicines in the PRC in a timely manner and examples of new drugs with an earlier approval from the CFDA after initiating clinical trials in the U.S. are Metolazone and Droperidol.

To the best of knowledge, information and belief of the Board, the Board is of the view that as more resources are planned to be provided by United Gene in the development of the Medicine, and at this stage, United Gene does not foresee there will be any material difficulty in contracting more hospitals and hiring additional supervisors as proposed by it, it is not unreasonable for the Board to expect that the time for development of the Medicine under the plan of United Gene will be shortened.

Nonetheless, according to United Gene, in the event that despite exercising its best endeavour, the Purchaser is unable to obtain sufficient funding to pay the Capital Commitment in full when needed, it may have to adjust its plan and timetable for the development and commercialization of the Medicine in the PRC and to adopt the original plan and timetable of the Company and to finance the development and commercialization of the Medicine from its internal resources, in which event the development and commercialization of the Medicine in the PRC may result in one year delay to obtain approval of the Medicine in the PRC and commercial manufacturing and sales of the Medicine in the PRC.

Set out below is a timetable for the development and commercialization of the Medicine proposed by United Gene and the Company respectively for easier reference:

	United Gene ***(Subject to Completion)*** ***(In or about)***	**Company** ***(In or about)***
Phase IIIB clinical trial commenced	July 2014	July 2014
Result of Phase IIIB submitted to CFDA for approval	March 2015	January 2016
Approval of CFDA expected to be obtained	June 2015	June 2016
Construction of factory — commence	July 2014	June 2015
Construction of factory — complete	June 2015	June 2016
Manufacturing permit will be obtained	September 2015	September 2016
Commercialization of products to commence	November 2015	October 2016
Clinical trials to commence in US	July 2014	—
Clinical trials to commence in Europe	July 2015	—
Results of clinical trials will be submitted to US	June 2018	—
Results of clinical trials will be submitted to Europe	June 2019	—
Approval by USFDA for commercialization	February 2019	—
Approval by Europe for commercialization	February 2020	—

Welly Surplus

Welly Surplus is currently inactive and is intended to act as the manufacturing and distribution arm of the Group in the development of the Medicine. On 19 October 2006, Welly Surplus entered into the Cooperation Agreement with Sea Ascent, which is currently owned as to 70% by an independent third party namely Mr. Wang Wei and as to 30% by another independent third party namely Mr. Zhao Peng, and Fosse Bio for, among others, the establishment of a company named Jiangsu Prevalence Pharmaceutical Limited ("**Jiangsu Prevalence**") by Sea Ascent's wholly-owned subsidiary namely Joy Kingdom Industrial Limited ("**Joy Kingdom**") for acquisition of a piece of industrial land situated in the Jiangsu Province, PRC and construction of a pharmaceutical production plant thereon for the production of the Medicine in the PRC.

Sea Ascent shall procure that the Plant shall have an annual production capacity of at least 1.5 billion capsules of the Medicine, with the gross floor area sufficient for expanding its annual production capacity to at least 3 billion capsules of the Medicine, and satisfy the standards as required for obtaining the compliance certificate under the Guidelines on Good Manufacturing Practices for Pharmaceuticals Products (藥品生產質量管理規範) for the production of the Medicine. The above shall be financed by Sea Ascent by way of an unsecured, non-interest bearing shareholder's loan for the principal amount of RMB40 million. In return, Sea Ascent will be entitled to a fee calculated at RMB6 cents for each capsule of Medicine produced, up to a maximum of RMB180 million (on the basis that the maximum annual production capacity of 3 billion capsules of Medicine for the production plant) for a period of six years commencing from the date on which the Medicine is launched for sales in the open market (the "**Initial Operating Period**").

On the same day, Welly Surplus entered into the SP Agreement whereby it agreed to acquire from Sea Ascent the entire equity interest in Joy Kingdom and shareholder's loan of RMB40.0 million at a total consideration of approximately RMB40.0 million. A nominal amount of approximately RMB10,000 is payable upon completion of the SP Agreement, with the remaining balance payable within one month after the expiry of the Initial Operating Period. The Directors considered that through the entering into of the Cooperation Agreement and the SP Agreement, the Group could significantly lower its operating risk for the development and manufacturing of the Medicine as the funding for acquisition of land use rights, and construction of the manufacturing plant as well as the machineries would be advanced by Sea Ascent. The original longstop date of the SP Agreement was on at before 12:00 noon on 30 November 2007 or such later date and time as the parties may mutually agree. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation whereby both parties agreed to extend the longstop date of the SP Agreement to 30 June 2010. It is noted that the extended longstop date has lapsed and as at the Latest Practicable Date, Welly Surplus and Sea Ascent have not further extended the longstop date of the SP Agreement, nevertheless, Welly Surplus and Sea Ascent have kept communication with each other and that neither party has expressed any intention to discontinue the SP Agreement and the Company will keep closely monitoring the progress of the clinical trial and approval process of the Medicine to ensure that the timetable for the construction of the Plant for the Medicine and completion of the SP Agreement will correspond to the approval process of the Medicine, which is expected to be in or about June 2016. Based on the progress of the clinical trial and approval process of the Medicine by the CFDA, Welly Surplus would decide the date for further extension of the longstop date of the SP Agreement and procure completion of the construction of the Plant.

As at the Latest Practicable Date, the piece of industrial land for the construction of the Plant has been acquired by Jiangsu Prevalence, the construction of the foundation and the surrounding walls of and the roads for access to the Plant have been completed. Given the progress of clinical trial of the Medicine as discussed in the above paragraphs, and without identifying any legal impediment for the entering of supplemental agreement and the extension of the longstop date of the SP Agreement, subject to further review by the Board of the then

progress of the clinical trial in early 2015 and, where appropriate, the view of United Gene upon Completion, it is the present intention of the Board to enter into supplemental agreement with Sea Ascent in early 2015 for the extension of the longstop date of the SP Agreement, and to agree on the timetable for the construction of the Plant so that the construction can be restarted in or around June 2015 for completion and delivery thereof to the Group in or around June 2016. The Company will closely monitor the progress of the construction of Plant, the clinical trial and approval process of the Medicine to ensure that the timetable for construction of the Plant for the Medicine and completion of the SP Agreement will correspond to the approval process of the Medicine and the issuance of the Certificate of New Medicine (新藥證書), which is expected to be in or about June 2016. The Company also expects that the Pharmaceutical Manufacturing Permit could be obtained about three months after the completion of construction of the Plant, which is estimated to be in or about June 2016 and the commercialization of the Medicine shall commence one month after obtaining the Pharmaceutical Manufacturing Permit. Subject to Completion, the Company and United Gene will formulate the development plan of the Target Group and reassess the above timetable as appropriate.

Nation Joy

Nation Joy is set up as an investment holding company and is currently inactive.

It was estimated that the Target Group would require a further working capital of approximately HK$26,000,000 for research and development expenses in relation to the upcoming clinical trial, and approximately HK$7,400,000 for pre-marketing efforts before the commencement of commercial manufacturing and distribution of the Medicine in the PRC. These costs were estimated based on the Group's projection without taking into account United Gene's involvement upon Completion. The Board understands from United Gene that the Capital Commitment in the amount of HK$600 million will be utilized to further the research, development and commercialization of the Target Group's oral insulin technology and will include other markets including those of the United States and Europe in addition to the PRC market. Although the Board does not have full detail on the breakdowns of the estimated costs of Untied Gene for the research, development and commercialization of the Medicine, to the best of the Directors' knowledge, information and belief based on current circumstances and having discussed with the management of the United Gene Group on its outline development project for the Medicine, the Directors are satisfied that the Capital Commitment amount of HK$600 million is substantially sufficient for the purpose of carrying out the development project for the Medicine by the United Gene Group for the Commitment Period.

6. INFORMATION ON THE MEDICINE AND THE DIABETES MARKET

Information on the Medicine

Insulin, which is a kind of protein, is medically used as an effective diabetic treatment and the insulin drugs are currently available in injection form. The formidable task of administering insulin orally has been pursued over the last several decades with a view to ease the pain and stress caused during delivery of insulin injections to the diabetic patients worldwide. Since insulin is a protein which is digested and destroyed in the stomach and intestine by digestive enzymes, and cannot penetrate by itself through the wall of intestine into blood vessels, researchers have to overcome these obstacles to enable insulin delivery by oral route which is considered to be a more convenient, safer and painless way of administration, facilitating better patient compliance and can also help improving quality of life of patients.

An invention, "a method of production of oil-phase preparation of oral insulin" (一種製備口服胰島素油相製劑的方法), is registered with patent under the joint names of Fosse Bio and Tsinghua University, Beijing under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration in 2004) and US 7,018,980 B2 (in respect of the United States patent registration in 2006), expiring in April 2021 and April 2022 respectively, and such technologies involve the use of a fine micro-emulsion particle by combining protein with lipids, which can protect the protein from being digested and enable the protein to pass through the wall of digestive tract to the liver (major area in the body where the function of insulin takes place) through portal vein. Oral insulin product (as the Medicine) in soft capsule, oral dosage form, is one of the oral insulin products co-developed by Fosse Bio and Tsinghua University, Beijing and is intended for use in type 1 and type 2 diabetes patients. The Medicine will be sold as a prescription drug and targets on customers currently taking insulin injection and/or OADs and those prospective customers who may not take injectable insulin or OADs at all due to various reasons e.g. pain, inconvenience, complications, and resistance to insulin through injection or side effects from taking OADs.

Information on the diabetes market

Diabetes is a chronic disease caused by deficiency in insulin production in the pancreas, or by failure of organs to react properly to the insulin produced. A lack of insulin results in increased concentrations of glucose in the blood, which in turn damages many of the body's organs and functions, in particular the blood vessels and nerves. Lack of treatment will lead to mortality.

Two main types of diabetes

Type 1 diabetes is characterized by a lack of insulin production, and usually develops in childhood and adolescence and patients require lifelong insulin treatment for survival.

Type 2 diabetes is resulted from the body's inability to respond properly to the insulin produced by the pancreas or ineffective use of insulin. Type 2 diabetes usually develops in adulthood and is related to obesity, lack of physical activity, and unhealthy diets. This is the more common type of diabetes accounting for about 90% of diabetic cases worldwide and treatment may involve lifestyle changes and weight loss alone, or oral medications or even insulin injections.

Complications of diabetes

Cardiovascular disease: This affects the heart and blood vessels and may cause fatal complications such as coronary heart disease (leading to attack) and stroke.

Kidney disease: This can result in total kidney failure and the need for dialysis or kidney transplant.

Nerve disease: This can ultimately lead to ulceration and amputation of the toes, feet and lower limbs. Loss of feeling is a particular risk because it can allow foot injuries to escape notice and treatment, leading to major infections and amputation.

Eye disease: This is characterized by damage to the retina of the eye which can lead to vision loss.

Prevalence and mortality

Over past decades, a continuous increase in prevalence of type 2 diabetes, which parallels a marked lifestyle transition and a worldwide epidemic of obesity has been observed in both developed and developing countries. Unlike the gradual transition in most western countries, these changes in the PRC have occurred over a short time. With the aggravation of aging degree, improvement in living standards and increase in obese groups caused by unhealthy lifestyles, the prevention and treatment of diabetes are increasingly severe. Information from International Diabetes Federation (the "**IDF**") Diabetes Atlas, 6th Edition shows that, in 2013, some 382 million people worldwide, or 8.3% of adults, are estimated to have diabetes. The PRC has the world's largest diabetic population of 98.4 million. It has a high rate of 9.6% of diabetes. The diabetic population in the PRC is forecasted to be about 142.7 million in 2035. The diabetic population in 2013 of the United States and Europe amounts to approximately 24.4 million and 56 million respectively. Diabetes causes almost 5.1 million people aged between 20 and 79 died from diabetes in 2013 according to IDF.

These results indicate that diabetes has become a major public health problem, particularly in the PRC and that strategies aimed at the prevention and treatment of diabetes are needed.

Diabetes treatment

Treatment typically includes diet control, exercise, home blood glucose testing, and in addition to a small part of patients with type 2 diabetes which can be controlled through diet therapy and exercise therapy, the rest all need drug treatment — oral medication and/or insulin injection.

Injectable insulin

As individuals may differ in their response to insulin, the onset, peak time and duration of various insulin preparations have been developed to satisfy the needs of patients, which include:

Rapid-acting analogs: These can be injected just before, with or after food and have a peak action at between zero and three hours. They tend to last between two and five hours and only last long enough for the meal at which they are taken.

Long-acting analogs: These tend to be injected once a day to provide background insulin lasting approximately twenty-four hours. They do not need to be taken with food since they do not have a peak action.

Short-acting insulins: These should be injected fifteen to thirty minutes before a meal to cover the rise in blood glucose levels that occurs after eating. They have a peak action of two to five hours and can last for up to eight hours.

Medium- and long-acting insulins: These are taken once or twice a day to provide background insulin or in combination with short-acting insulins or rapid-acting analogs. Their peak activity is between four and twelve hours and can last up to thirty hours.

Mixed insulin: This is a combination of medium- and short-acting insulin.

Oral anti-diabetic drugs

Oral medications are available from:

Sulphonylureas: These work by increasing the amount of insulin the pancreas produces and increasing the effectiveness of insulin.

Biguanides/Metformin: These prevent the liver from producing glucose and help to improve the body's sensitivity towards insulin.

Alpha-glucosidase inhibitors: These slow down the digestion of carbohydrates in the small intestine and help to reduce after meal blood sugar levels.

Prandial glucose regulators: These have a similar response as sulphonylureas but act for a shorter time.

Thiazolidinediones: These help to improve insulin sensitivity.

DPP-4 inhibitors: These help to stimulate the production of insulin and reduce the production of glucagon, particularly during digestion.

Insulin is medically used as an effective diabetic treatment but the insulin drugs are available in injection form, whereas oral medication is more acceptable by patients but the available oral anti-diabetic drugs may cause common side effects which include gastro-intestinal e.g. irritation to stomach and intestines, flatulence, indigestion; secondary inefficacy (diminishing efficacy to no efficacy); impairment of liver and kidney function; hypoglycemia; adverse effects to fetus and infants; edema, retention of water and sodium (increasing harms to patients having heart failure and lung edema); functional failure of pancreatic isle cells, leucopenia, metabolic acidosis.

In this sense, an oral insulin therapy which is pain-free, needle-free and a non-invasive drug delivery would be most desirable by researchers.

7. VALUATION ON THE TARGET GROUP

Based on the valuation report prepared by Castores Magi, Registered Professional Surveyors and an independent professional valuer, the appraised market value of the equity interest of the Target Group (that is, 100% equity interest in Smart Ascent together with its 51% equity interests in Fosse Bio and Welly Surplus and 100% equity interest in Nation Joy) as at 28 February 2014 amounted to approximately HK$1,938,000,000. On the basis that the market value of the Sale Shares represents 51% of the appraised market value of the equity interest of the Target Group, the Consideration represents a discount of approximately 21% to the appraised market value of the Sale Shares.

Castores Magi has appraised the equity of the Target Group on the basis of "market value" on the premise of going concern which assumes that the Target Group is normally viewed as continuing in operation in the foreseeable future with neither the intention nor necessity of liquidation or of curtailing materially the scale of its operation basis. Castores Magi has also made the following assumptions in the course of its appraisal:

- The Target Group will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;
- Fosse Bio will have no obstacle to obtain production approval of the Medicine from the CFDA after completion of the further stage of clinical trial, which is expected to take approximately three years;
- there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Target Group currently runs or intends to run its business which will materially affect its operation;
- there will be no substantial market fluctuation in the industry in the jurisdictions or states in which the Target Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;
- there will be no substantial fluctuation in current tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which the Target Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;
- the management of the Target Group will not make any decision, which is harmful to the revenue generation ability of the Target Group's business; and

- the financial forecast of the Target Group, and the assumptions on which such financial forecast is made, will be achievable. The principal assumptions on the financial forecast are:

  (i) the estimated diabetic population of the PRC in 2016 will be 98 million and is expected to grow at 0.5 million per annum after 2016 (please refer to the sub-section under the heading "The PRC diabetic population and market share of the Medicine in the PRC diabetic market" for further details);

  (ii) the following factors considered in the financial forecast:

	For the financial year ending 31 March				
	2017	**2018**	**2019**	**2020**	**2021**
Number of capsules (50 IU)('000)	522,680	1,165,810	1,511,830	2,027,210	2,610,480
Unit Price (RMB)	2.75	2.75	2.75	2.75	2.75
Revenue (RMB'000)	1,437,370	3,205,978	4,157,533	5,574,828	7,178,820
Growth rate of revenue	—	123.04%	29.68%	34.09%	28.77%

  (iii) operating expenses, including staff costs, administrative and marketing expenses, property related expenses, are estimated by the Target Company's management with reference to the scale of operations; and

  (iv) necessary capital expenditure will be funded out of internal cash flows, plus external funding if required, and has been included in the projections as a cash outflow.

Set out below is the basis of the factors considered in the financial forecast:

Timing of commercialization

Fosse Bio has recently completed the multi-centered, randomized, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of type 2 diabetes (part A of the Protocol) with satisfactory results, and is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial, being part B of the Protocol filed with the CFDA. The progress and results of the clinical trials up-to-date indicated that the Medicine achieved positive effect, in particular, the statistical outcome of the per-protocol set (PPS) analysis relating to part A of the Protocol shows that the bio-efficacy of the Medicine in the treatment group was significantly superior to that of the control group in the effect of reducing blood glucose level in diabetics and the Company believes that there would be no major obstacle in completing the extended clinical trial for the Medicine and obtaining the final approval from CFDA for production and distribution of the Medicine in the PRC. Notwithstanding the history of delay to the commercialization of the Medicine, based on the aforesaid favourable results of part A

of the clinical trial contemplated in the Protocol, which is the first double-blinded, placebo-controlled clinical trial that Fosse Bio has completed, and the experience gained through the phases of clinical trials and assessment process of the CFDA, the Company estimates that the commencement of manufacturing of the Medicine will be in October 2016, i.e. the second half of year ended 31 March 2017.

The PRC diabetic population and market share of the Medicine in the PRC diabetic market

In estimating the revenue to be generated from marketing the Medicine in the PRC, the whole diabetic population in the PRC is included as the Company's target market, including the type 1 diabetics and type 2 diabetics. As type 1 diabetics cannot produce insulin by themselves, they must take insulin to restore the insulin level in their bodies and oral insulin can be effective in this respect. On the other hand, the treatment of type 2 diabetics can be a combination of continuous diet, exercises and the use of oral anti-diabetic drugs ("**OADs**"), which aim to lower glucose level in the human body. The Company is of the opinion that insulin is a preferred treatment to OADs for type 2 diabetics as OADs are considered to create more adverse side-effects to patients.

According to IDF, the adult (20 to 79 years old) diabetic population in the PRC amounted to approximately 98.4 million in 2013 and the global diabetic population will rise from 382 million in 2013 to approximately 592 million by 2035, which translates into a compound annual growth rate of approximately 2% for the period from 2013 to 2035. Taking into account the above relevant publicly available information, the Company estimates a diabetic population (including both type 1 diabetics and type 2 diabetics) of approximately 98 million in the PRC when the Medicine is about to commence commercial sales in the second half of 2016, with a growth of 0.5 million annually afterwards, which roughly translates to 0.5% annual growth.

According to statistics of the World Health Organization (reviewed October 2013), type 2 diabetes which may be caused by obesity, physical inactivity is more common than type 1 diabetes, and accounts for approximately 90% of all diabetes worldwide. Childhood and adolescent obesity numbers are serious in the PRC. According to an article "Recommendations from the EGAPP Working Group: does genomic profiling to assess type 2 diabetes risk improve health outcomes?" published by the Evaluation of Genomic Applications in Practice and Prevention Working Group launched by the Centers for Disease Control and Prevention of the United States on 14 March 2013, up to 95% of all diabetes is considered type 2 diabetes. With reference to the above, the Company estimated that among the diabetes patients, about 8% of them belong to type 1 diabetes and 92% of them belong to type 2 diabetes. Based on the management's experience and the consideration of launching a new diabetic treatment method of oral insulin and the market price of the comparable insulin medicine and OADs and the advantages of oral insulin, the Company made the following assumptions on the percentages and subsequent growth of market share in the type 1 diabetic

population and type 2 diabetic population respectively in estimating the market share of the Medicine in the PRC diabetic population (assuming the commercialization of the Medicine will commence in October 2016):

	Market share in	
	Type 1 diabetic Population	**Type 2 diabetic Population**
Year 1	0.50%	1.50%
Year 2	0.80%	1.80%
Year 3	1.20%	2.40%
Year 4	1.50%	3.20%
Year 5	1.80%	4.00%

In estimating the market share of the Medicine, the management considered the market shares of existing competitors in the insulin market in the PRC, the growth potential of the market share with reference to the management's knowledge of penetration of other new medicines in the PRC, and the Company's focus on marketing the Medicine to type 2 diabetic population. For details of the assumptions and estimates, please refer to Appendix II(A) to this circular.

Pricing

The management estimates a price of RMB2.75 per capsule (with 50 units of insulin). Based on the findings from the previous clinical trials, the management estimates that the suitable level of intake of the Medicine for type 1 diabetics and type 2 diabetics per day is 200 units and 100 units of insulin intake respectively, which is equivalent to four capsules and two capsules of the Medicine respectively.

In determining the pricing of the Medicine, which is the wholesale distribution price of the Medicine, the Company considered the market acceptability of the estimated retail price of the Medicine. In the opinion of the management, distributors may accept a lower margin for an unprecedented new drug like oral insulin which is generally believed to have great market potential. In assessing the market acceptability of the estimated retail pricing, the management referred to the pricing of injected insulin and OADs currently available in the PRC market.

With reference to available retail price information from the market, subject to doctors' prescription, the costs for patients with minimum or recommended daily dosage of the injected insulin would range from about RMB4 to RMB12 (for instance, one of the representative injected insulin costs about RMB11 per day), whereas costs for patients with minimum or recommended daily dosage of OADs would range from about RMB2 to RMB22 (for instance, one of the representative OADs costs about RMB15 per day). Subject to doctors' prescription, the recommended daily dosage for the Medicine for type 2 diabetics would be two capsules

(with 50 units of insulin per capsule, at estimated retail price of RMB4.6) which would cost the patients of about RMB9.2 per day. As such, the management considers that the pricing of the Medicine is competitive amongst the injected insulin and OADs.

Cost of sales and other expenses

Based on the management's experience and the consideration of producing a single product in large scale, cost of sales is estimated to be RMB1.25 per capsule (with 50 units of insulin) which included variable and fixed components, and the variable components contributed to the majority of the cost of sales. Variable components in cost of sales include the cost of local insulin which is the main component of the Medicine, and other chemical components. The variable components also include variable processing costs incurred in the production of the Medicine, including but not limited to the fee payable under the Cooperation Agreement. Fixed costs include principally land and property taxes and other fixed factory overheads such as labour cost.

Expense items are principally marketing and distribution expenses and administrative expenses. Major items in the estimated marketing and distribution expenses include the amount payable to Tsinghua University, Beijing, which will be calculated based on 1.5% of annual sales of the Medicine. Other items include finance costs, pre-operating expenses, amortization and income tax. Based on the management's experience, it is estimated that the marketing and distribution expenses and the administrative expenses will increase in proportion to the increase in revenue in order to secure the target market share.

Castores Magi has used discounted cash flow method in evaluating the business of the Target Group as at 28 February 2014. As advised by the Company's auditors, East Asia Sentinel Limited, the accounting policies and calculations adopted in and the calculations of the discounted cash flow forecast underlying such valuation have been properly complied in accordance with the bases and assumptions as set out therein, and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2013, a letter from East Asia Sentinel Limited dated 27 June 2014 is included in this circular as Appendix II(B).

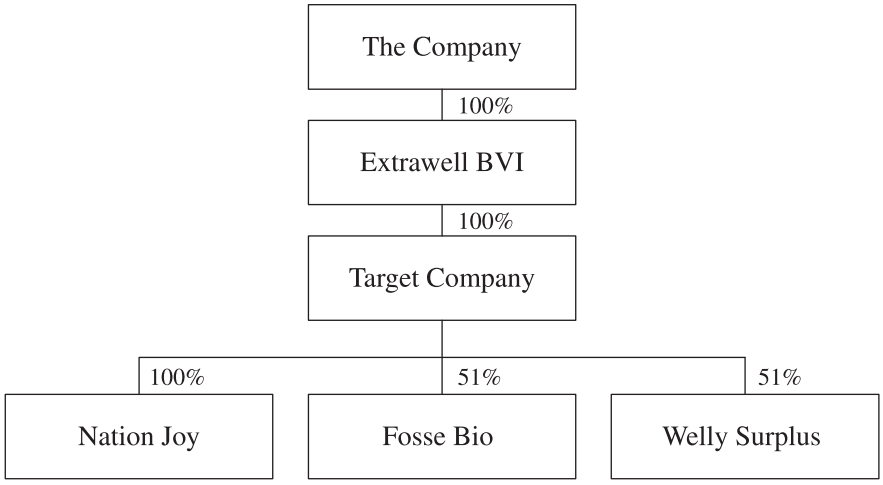
It is noted that the valuation assumes that the diabetic population is based in the PRC only. The Company is of the view that such basis of preparation for the valuation (including PRC market only) is fair and reasonable after taking into account that (i) the expertise of the Company on the development of the Medicine in the PRC market only but not markets in the United States and Europe; (ii) the original development plan of the Company on the Medicine was to focus on the PRC market only in the absence of the Disposal; (iii) in the point of view of the Company, the Disposal refers to the disposal of interests in the future economic benefits to be generated by the Medicine in the PRC only given that the Company is not capable to promote the Medicine to the markets in the United States and Europe without the involvement

of United Gene; and (iv) the Company did not have information of United Gene Group's development plan of the Medicine on the markets in the United States and Europe before Completion and the implementation of such development plan will be relied on United Gene.

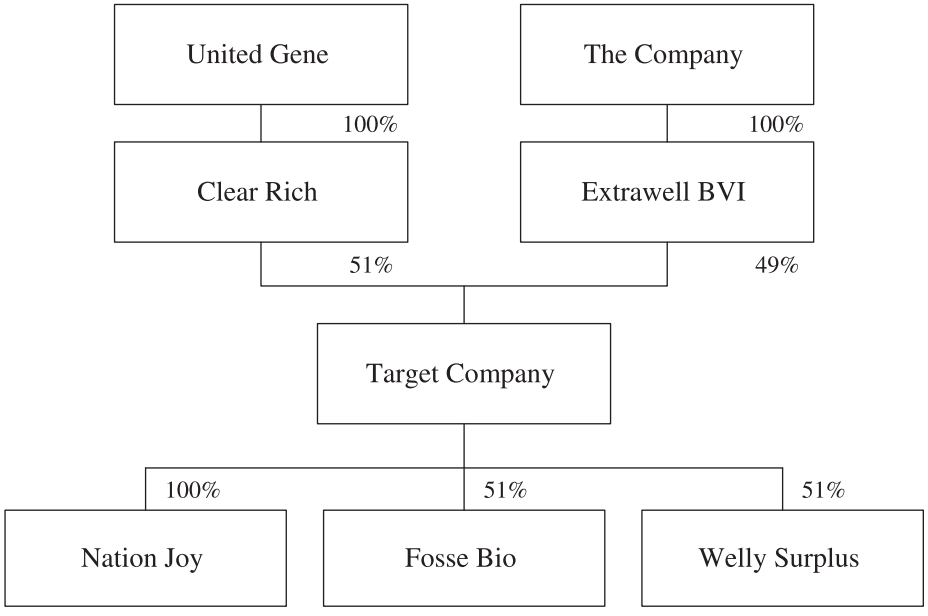
The Directors has also confirmed that they had made the discounted cash flow forecast underlying such valuation after due and careful enquiry, a letter from the Directors dated 27 June 2014 is included in this circular as Appendix II(C).

8. CHANGE IN SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

(a) Shareholding structure of the Target Company before Completion



(b) Shareholding structure of the Target Company immediately after Completion



Upon Completion, the Target Company will be owned as to 51% by United Gene and become an indirect non wholly-owned subsidiary of United Gene. The financial results of the Target Company will become consolidated into the financial statements of United Gene Group and, at the same time, the Target Company will cease to be a subsidiary of the Group. The Company will retain 49% equity interest in the Target Company as investment.

Note:

(1) The other businesses of the Group and the United Gene Group, which are not directly related to the Disposal, are excluded from the above shareholding structure of the Group.

9. RISK FACTORS RELATING TO AVAILABILITY OF FUND TO THE PURCHASER TO PAY THE CAPITAL COMMITMENT

Payment of the Capital Commitment in the maximum sum of HK$600 million is subject to, amongst other conditions, the availability of fund to the Purchaser and according to United Gene, in the event the Purchaser is unable to secure available funding by internal resources and/or fund raising exercises to pay for the Capital Commitment when needed by the Target Company, it will have to fund the development and commercialization of the Medicine by its own internal resources, it may therefore result in:

(i) the plan of United Gene (1) to conduct multiple clinical trials concurrently by contracting twice the number of hospitals the Company has originally planned; (2) to hire additional supervisors to coordinate and operate the clinical trials in conjunction with the contract research organization and the increased number of hospitals; and (3) to utilize the multi-regional clinical trial pathway that involves starting Phase 1 in the United States or Europe may not be able to be carried out;

(ii) the estimated timetable to speed up the approval time by the PRC government of the Medicine to June 2015 and the commercial manufacturing and sales of the Medicine to November 2015 may not be able to be achieved;

(iii) the commercialization of the Medicine in the PRC will be delayed and the United States and Europe markets will be delayed or obstructed, in which case, and will adversely affect the financial condition and results of the operations of the Target Group; and

(iv) the adversely affected financial condition and results of the operations of the Target Group will in turn adversely affect the financial condition and results of operations of the Group given that the Group will consolidate the profit or loss of the Target Group as an associate by equity method.

Based on current assessment, the Board has not identified any impairment indicator for the investment in the Target Group upon the Completion.

10. REASONS FOR AND BENEFITS OF THE DISPOSAL AND PROPOSED USE OF PROCEEDS

The Group is principally engaged in the marketing and distribution of pharmaceutical products to customers in the PRC, the development, manufacture and sales of pharmaceutical products in the PRC, the business of commercial exploitation and development of genome-related technology and the development and commercialization of oral insulin products.

The Target Company is the holding company for the Group's oral insulin operations. The Medicine is one of the oral insulin products being developed by the Group which is under clinical trial in the PRC and has completed part A of the Protocol relating to the multi-centered, randomized, double-blinded and placebo-controlled clinical trial with satisfactory result. It is currently estimated that the extended clinical trial based on part B of the Protocol will commence in or about July 2014 and report on the results of the clinical trial is expected to be submitted for assessment by CFDA in or around January 2016, and subject to satisfactory assessment by the CFDA, the commencement of manufacturing of the Medicine will be in the second half of 2016. Further details please refer to the section headed Fosse Bio regarding stage of development of the Medicine.

The Group had no intention of disposing the 51% interest in the Target Company until being approached by the United Gene Group and expressed its interest and intention to acquire the 51% interest in the Target Company and subsequently the Group entered into negotiation with the United Gene Group in March 2014 on the possibility of a transaction relating to the disposal by the Group and the acquisition by the United Gene Group of the 51% interest in the Target Company and the Board noted from the circular of United Gene dated 26 April 2013 concerning placing of convertible bonds in the principal amount of HK$74 million and the subscription of convertible bonds in the principal amount of HK$59 million that since 2010 United Gene had been in the process of considering and assessing a number of investment opportunities concerning business relating to health care, pharmaceutical and biotechnology, including but not limited to oral insulin.

Apart from the United Gene Group, the Group had not been approached by any third party or engaged in any negotiation with any third party relating to the disposal of any interest in the Target Group.

The Board is of the view that although upon Completion, the Target Company will cease to be a subsidiary of the Group with the disadvantage that the Target Group will no longer be under the control of the Group, the Vendor will still retain a 49% equity interest in the Target Company as investment and become a minority interest of the Target Group and this may affect the liquidity of the remaining investment of the Group in the Target Group, the Group will be able to benefit from the Purchaser's undertakings to solely assume the total future capital and operating expenditures of the Target Company for a period of 3 years and with an aggregate amount not exceeding HK$600,000,000 for the future development of the Target Company including the research and development in the clinical trial of the Medicine and relieve the Group from the burden of having to make any capital contributions to the Target Company for the period of 3 years and maintain the benefit of enjoying the fruit of any success in the research and development in the clinical trial of

the Medicine and the Group can also enjoy and benefit the synergy effect that United Gene may bring to promote the Medicine beyond the PRC to markets in the United States and Europe. Notwithstanding the Group has had no export sales experience of pharmaceuticals to the markets in the United States and Europe, the Group notes that according to the publicly available information from IDF, the diabetic population in 2013 of the United States and Europe amounts to approximately 24.4 million and 56 million respectively. The health expenditure on diabetes in the United States amounts to an estimate of USD 239 billion, while Europe amounts to an estimate of USD147 billion in 2013 according to IDF. Moreover, in 2013, the average health expenditure relating to each diabetes patient in the United States is about USD9,800, in Europe (based on the average of Germany, Spain, Italy, France and United Kingdom) is about USD4,183, in the PRC is about USD333, which shall provide a solid customer base for a potential drug as the Medicine. In light of the growing diabetic population and the potentiality of the Medicine being developed by the Group, the Target Company shall bring economic benefit to the Group upon commercialization of the Medicine. Although the Group has not been provided with detailed development plan of the commercialization of the Medicine in the United States and Europe, according to United Gene, subject to the Completion, phase I clinical trial will be initiated in the United States in or about July 2014 and subject to the conclusion of the Phase I clinical trial, clinical trials will proceed to the next phase.

According to United Gene and to the best knowledge, information and belief of the Board, it is a prerequisite to obtain approval of the Medicine from the relevant authorities in the United States and Europe before it is permitted to explore and develop the markets in the United States and Europe. United Gene will use its best endeavour to develop the Medicine overseas and in the coming four to five years, it will focus on completing the clinical trials and obtaining approval of the Medicine from the relevant authorities and at this stage it has no intention to export the Medicine overseas but intends to keep open the long-term option of pursuing the development and exploitation of the Medicine's potential markets in the United States and Europe in the future and will consider factors, including but not limited to, market conditions, price, cost and selection of business partners for exporting the Medicine to overseas. The Board is of the view and belief that in view of United Gene's intention to use its best endeavour to develop the Medicine overseas, the Disposal will bring along synergy effect between the Company and United Gene.

With the Capital Commitment of the amount of HK$600 million that the United Gene Group will be provided for the Target Group and the resources that the United Gene Group will be provided to promote the Medicine to markets in the United States and Europe, the Group is confident with the prospect of the Target Group in the research, development and commercialization of the Medicine in the PRC, the United States and Europe markets after Completion.

According to the information from IDF, there exists a solid customer base with significantly higher spending capabilities in the United States and Europe markets as compared to those of the PRC market and the Group believes for a potential drug such as the Medicine which will enable an oral intake of insulin for the diabetes patients, being a more convenient, safer and painless way of administration, that can facilitate better patient compliance and also help improving quality of life of patients, would be widely acceptable by the patients. The Group is not familiar with the markets in the United States and Europe and has had no export sales experience of pharmaceuticals to these markets. The Group also notes that United Gene has not had experience in exporting medicines to the United States and Europe. Despite the aforesaid, the Group understands from United Gene that they have been deploying resources aiming at developing these markets. As indicated in United Gene's announcement dated 31 October 2013, Dr. Yu Wei Ping who possesses substantial experience in the United States market, has been appointed as adviser and joint chairmen to the Department of Innovation and Strategic Development of United Gene since 25 October 2013, to provide innovation and strategy consultation in the pharmaceutical industry to the United Gene Group in relation to research and development of their pharmaceutical and biotechnological related projects and products as well as other scientific technologies. In addition, counting on the Capital Commitment by United Gene, the Group believes that United Gene will have resources and expertise in place to develop these markets beyond the PRC for the Medicine and further. The Group considers it can gain valuable experience and synergy effect over its other businesses and products from the United Gene Group's planned expansion of geographical coverage for the Medicine to the United States and Europe markets to which the Group has no experience or exposure, as the Group will retain 49% equity interest of the Target Company as investment and has no intention to dispose of the same.

Moreover, with the cash payment of the Consideration generated from the Disposal and the interest payments generated from the Convertible Bonds, the Group can enhance the resources it may deploy to its other existing pharmaceutical businesses to improve their performances and to look for other profitable investment opportunities. Therefore, the Directors believe that benefits to the Group as a whole arising from the Disposal will outweigh any detrimental effect of the Target Company ceasing to be an indirect subsidiary of the Group.

The consolidated net asset value of the Target Company was approximately HK$254,000,000 as at 31 March 2013. It is expected that a gain of approximately HK$408,000,000 will be accrued to the Group upon Completion of the Disposal. In addition, it is the current intention of the Company to retain the Convertible Bonds until maturity and to receive coupon interest income of approximately HK$25 million per year from the Convertible Bonds until the 7th anniversary from the issue date.

Subject to review by the Board from time to time, it is intended that the net cash proceeds from the Disposal, which is currently estimated to be approximately HK$63,000,000, of which approximately HK$20 million will be applied as additional working capital of the Group's business in the Manufactured Pharmaceutical Sector in increasing the research and development capabilities in its manufactured products, including but not limited to deploying financial and human resources in research team to develop new product lines and extend product range,approximately HK$20

million will be applied as additional working capital of the Group's business in the Imported Pharmaceutical Sector to enhance its ability in pursuing potential products from overseas pharmaceutical corporations which shall complement the existing product portfolio of the Group. In this connection, the Group would deploy additional marketing talents to liaise with overseas corporations in the identification of potential products, and to organize conferences and medical meetings to increase the exposure of the Group, and the remaining balance of approximately HK$23 million will be applied by the Group in prudently seeking new investment opportunities, including but not limited to acquisitions and mergers in pharmaceutical businesses which are in line with the Group's existing businesses and could foster a long-term development of the Group, with a view to increasing the corporate value of the Company as a whole.

It is the policy of the Company to utilize its financial resources prudently. In identifying and considering new investment opportunities, the Company will prudently assess the funding requirement for these investment opportunities and will give priority to those investment opportunities which are in line with the Group's pharmaceutical businesses and can foster a long-term development of the Group, as at the Latest Practicable Date the Group has not identified any new investment opportunity.

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the entering into of the Disposal Agreement although is not in the ordinary and usual course of business of the Company, the terms of the Disposal Agreement and the Consideration are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

11. FINANCIAL IMPACT OF THE DISPOSAL TO THE GROUP

Following Completion, the Company will retain 49% equity interest in the Target Company as investment and the Target Company will cease to be a subsidiary of the Company. Accordingly, the assets (including the intangible assets in relation to technological know-how with carrying value of approximately HK$284.3 million as at 30 September 2013), liabilities and financial results of the Target Group will no longer be consolidated into the financial statements of the Company. The 49% interests in the Target Group as retained will be regarded as an associate of the Company and will be accounted for by using equity method in accordance with the Hong Kong Financial Reporting Standards, and based on current assessment, the Board has not identified any impairment indicator for the investment in the Target Group upon the Completion.

Upon Completion, the Group would recognize a gain on Disposal of approximately HK$408 million*(Note)* which is calculated with reference to:

(i) the Consideration of HK$780 million;

(ii) the fair value of the remaining 49% equity interest in the Target Company retained by the Group of approximately HK$360 million;

(iii) the premium (being the excess of investment costs over the Group's share of 49% of the fair value of non-controlling interest in the consolidated net asset value of Smart Ascent upon completion of the acquisition in July 2013) as recorded in equity attributable to equity holders of the Company of approximately HK$598 million de-recognized upon the Disposal;

(iv) the consolidated net assets of the 51% shareholding interest in the Target Company of approximately HK$132 million attributable to the Group as at 30 September 2013; and

(v) the estimated direct costs (including professional costs) relating to the Disposal of approximately HK$2 million.

The gain on the Disposal of approximately HK$408 million would increase the total equity of the Company. The net cash proceeds of the Consideration of approximately HK$63 million would improve the overall cash flow of the Group. As the loan and amounts due to non-controlling interests of the Target Group of approximately HK$48.3 million and the amounts due from non-controlling interests of the Target Group of approximately HK$12.6 million as at 30 September 2013 would no longer be consolidated into the financial statements of the Group upon Completion, the total liabilities and total assets of the Group would be reduced by these amounts respectively.

Note: the Group would recognize a gain on the Disposal of approximately HK$408 million instead of HK$286 million as stated in the joint announcement of the Company and United Gene dated 18 March 2014, the difference in figures was due to net assets attributable to the non-controlling interests of the Target Company's subsidiaries have not yet been excluded in the previous computation of the 51% shareholding interest in the Target Company and its subsidiaries to be disposed of.

12. IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios in respect of the Disposal are higher than 25% but below 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, United Gene holds approximately 19% of shareholding of the Company and is hence a connected person of the Company (within the meaning of the Listing Rules), therefore the Disposal and the entering into of the Disposal Agreement and the transactions contemplated thereunder constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The Disposal is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

In view of the foregoing, the Company will convene a SGM to seek the approval of the Independent Shareholders on the Disposal, the Disposal Agreement and the transactions contemplated thereby. The Company has established the Independent Board Committee to advise the Independent Shareholders in connection with the Disposal, the Disposal Agreement and the transactions contemplated thereby, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

13. SGM

The Company will convene the SGM at which an ordinary resolution will be proposed to approve the Disposal Agreement and the Disposal. In accordance with the Listing Rules, the votes at the SGM shall be taken by poll.

Set out on pages SGM-1 to SGM-2 to this circular is the notice convening the SGM to be held at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Tuesday, 15 July 2014 at 3:00 p.m. at which an ordinary resolution will be proposed at the SGM to approve the Disposal Agreement and the Disposal.

Abstain from voting

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, United Gene holds approximately 19% of shareholding of the Company and is hence a connected person of the Company (within the meaning of the Listing Rules). United Gene and its associates shall be required to abstain from voting on the resolution(s) proposed to be passed at the SGM for approving the Disposal, the Disposal Agreement and the transactions contemplated thereby.

Dr. Mao Yumin was a Director until he resigned on 5 December 2013, he is also a director of the Vendor and hence a connected person of the Company (within the meaning of the Listing Rules). To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Dr. Mao Yumin is also a controlling shareholder of United Gene, as he holds directly and indirectly a total of approximately 32% equity interest of United Gene, as at the Latest Practicable Date, he is therefore considered to be materially interested in the Disposal. Dr. Mao Yumin and his associates shall be required to abstain from voting on the resolution(s) proposed to be passed at the SGM for approving the Disposal, the Disposal Agreement and the transactions contemplated thereby.

Dr. Xie Yi, chairman, chief executive officer and executive Director of the Company, is at the Latest Practicable Date interested in approximately 21% of shareholding in United Gene through corporations controlled by him and Dr. Mao Yumin, he is therefore considered to be materially interested in the Disposal. Pursuant to the bye-laws of the Company, Dr. Xie Yi had abstained from voting (and had not been counted in the quorum) on the resolution(s) at the Board meeting on 17 March 2014 to approve the Disposal, the Disposal Agreement and the transactions contemplated thereby. Dr. Xie Yi and his associates shall also be required to abstain from voting on the resolution(s) proposed to be passed at the SGM for approving the Disposal, the Disposal Agreement and the transactions contemplated thereby.

14. RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the Disposal, the Disposal Agreement and the transactions contemplated thereby, although are not in the ordinary and usual course of the business of the Company, they are

fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote. Your attention is drawn to the advice of the Independent Board Committee set out in its letter on page 49 of this circular. Your attention is also drawn to the letter of advice from Quam to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Disposal Agreement and the transactions contemplated thereby set out on pages 50 to 89 of this circular.

The Independent Board Committee, having taken into account the advice of Quam, considers that the Disposal, the Disposal Agreement and the transactions contemplated thereby to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the ordinary resolutions to ratify and approve the Disposal, the Disposal Agreement and the transactions contemplated thereby at the SGM.

15. ACTION TO BE TAKEN

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

16. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee with its recommendation to the Independent Shareholders with regard to the Disposal Agreement and the Disposal; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Disposal Agreement and the Disposal; (iii) the financial information of the Group set out in Appendix I; and (iv) the valuation report set out in Appendix II; and (v) the additional information set out in Appendix III to this circular.

Yours faithfully,
By order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Chairman

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

27 June 2014

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION CONCERNING THE DISPOSAL OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED

We refer to the circular issued by the Company to its shareholders and dated 27 June 2014 ("**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Disposal, the Disposal Agreement and the transactions contemplated thereby as to whether, in our opinion, they are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Quam Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Quam Capital Limited as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Quam Capital Limited as set out in its letter of advice, we consider that the Disposal, the Disposal Agreement and the transactions contemplated thereby although are not in the ordinary and usual course of the business of the Company, they are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Disposal, the Disposal Agreement and the transactions contemplated thereby at the SGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Fang Lin Hu **Mr. Xue Jing Lun** **Ms. Jin Song**

Independent non-executive Directors

* *For identification purpose only*

The following is the full text of a letter of advice from Quam, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Disposal Agreement and the transactions contemplated thereunder.

Quam 華富嘉洛企業融資 CAPITAL **Quam Capital Limited**
A Member of The Quam Group

27 June 2014

To the Independent Board Committee and the Independent Shareholders
Extrawell Pharmaceutical Holdings Limited
Suites 2206–08, 22nd Floor
Devon House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION CONCERNING THE DISPOSAL OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, the Disposal Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular of the Company dated 27 June 2014 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song, has been established to advise the Independent Shareholders as to whether the Disposal, the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

Quam is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Disposal, the Disposal Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information and facts supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and will remain so up to the time of the SGM and may be relied upon. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations regarding the Group, United Gene Group, the Disposal and the Disposal Agreement provided to us by the Group and/or the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group and the advisers of the Company.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have neither carried out any independent verification of the information, nor conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, United Gene, Smart Ascent or any of their respective subsidiaries or associates, and are not experts in the medical application of insulin.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Disposal, the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background of and reasons for the Disposal

(a) *Information on the Group*

The Group is principally engaged in the marketing and distribution of pharmaceutical products to customers in the PRC, the development, manufacture and sales of pharmaceutical products in the PRC, the business of commercial exploitation and development of genome-related technology and the development and commercialisation of oral insulin products.

Marketing and distribution of imported pharmaceuticals contributed a major part to the revenue of the Group. The major products in the market are focusing on central nervous system, antihypertensive and dermatology. The Group provides one-stop services from product registration to sales and marketing of pharmaceuticals in the PRC and collaborates with pharmaceutical manufacturers who are interested in the PRC market.

As advised by the Company, the Group currently runs two manufacturing operations in Changchun, Jilin Province. A new production plant with more advanced facilities, of a site area of approximately 55,000 square metres, has been set up in Jiu Tai, Changchun, and is pending for GMP certification. The major products manufactured are mainly in immunological, cerebro-cardio vascular, anemia and dermatological categories and applied for immunological, cerebro-cardio vascular and iron deficiency anemia diseases.

Set out below are the extracts of the consolidated statement of comprehensive income and statements of financial position of the Group for the three years ended 31 March 2013 and for the six months ended 30 September 2012 and 2013 as extracted from the Group's 2012 and 2013 annual reports and the Group's 2014 interim report and the clarification announcement of the Company dated 12 June 2014 in relation to the interim report for the six months ended 30 September 2013, which were prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the six months ended 30 September		**For the year ended 31 March**		
	2013	**2012**	**2013**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Turnover	69,612	82,944	151,068	157,406	198,816
Profit before taxation	8,250	7,317	8,886	16,863	5,103
Profit for the period/year attributable to equity holders of the Company	7,858	6,987	10,876	20,414	11,567

	As at 30 September	**As at 31 March**		
	2013	**2013**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated and unaudited)	(audited)	(audited)	(audited)
Total assets	755,494	717,616	687,804	664,092
Total liabilities	298,686	134,324	112,727	103,819
Equity attributable to equity holders of the Company	320,971	384,347	373,436	354,155
Non-controlling interests	135,837	198,945	201,641	206,118

The turnover of the Group for the year ended 31 March 2013 decreased by approximately HK$6.3 million, representing a decrease of approximately 4.0%, in comparing with that for the year ended 31 March 2012. Such decrease was mainly attributable to the decrease in the turnover of segment of trading of pharmaceutical products outweighed the increase in the turnover of segment of manufacturing of pharmaceutical products. The turnover from segment of trading of pharmaceutical products decreased from approximately HK$105.7 million for the year ended 31 March 2012 to approximately HK$89.6 million for the year ended 31 March 2013. Such decrease was mainly attributable to sales mix and price adjustment on products for customers under the adjusted distribution model, which aims to better position the Group to monitor credit control over the trade receivables and minimise operating costs after consolidation of distribution channel. The turnover from segment of manufacturing of pharmaceutical products has increased from approximately HK$51.7 million for the year ended 31 March 2012 to approximately HK$61.4 million for the year ended 31 March 2013. Such increase was mainly attributable to the growth in demand of end-user terminal market as a result of the active brand building strategy by deploying more resources in organising marketing and promotional activities in face of severe challenges against the backdrop of competitive market situation and rising operating costs so as to firmly grasp the market share in the expanding rural markets.

The profit attributable to equity holders of the Company decreased from approximately HK$20.4 million for the year ended 31 March 2012 to approximately HK$10.9 million for the year ended 31 March 2013, which was mainly attributable to the non-recurring item of reclassification of exchange differences from translation reserve of approximately HK$8.4 million for the year ended 31 March 2012 and the loss from share of result of an associate of approximately HK$3.1 million due to its business start-up costs.

The turnover of the Group for the six months ended 30 September 2013 decreased by approximately HK$13.3 million, representing a decrease of approximately 16.1% as compared with that for the six months ended 30 September 2012. Such decrease was mainly attributable to the reduction in the turnover of segment of manufacturing of pharmaceutical products and segment of trading of pharmaceutical products. The turnover from segment of manufacturing of pharmaceutical products decreased from approximately HK$34.8 million for the six months ended 30 September 2012 to approximately HK$28.8 million for the six months ended 30 September 2013. Such decrease was mainly attributable to price reduction on products to capture market share, in the face of pricing pressure due to national policy and measures implemented on drug tendering across provinces during the six months ended 30 September 2013. The turnover from segment of trading of pharmaceutical products decreased from approximately HK$48.2 million for the six months ended 30 September 2012 to approximately HK$40.8 million for the six months ended 30 September 2013. Such decrease was mainly attributable to the modification in delivery schedules of stock replenishment plan by one of the Group's major customers during the six months ended 30 September 2013. For the segment of oral insulin, no revenue was generated during the six months ended 30 September

2013 as the clinical trial was still in progress. For the segment of gene development, no revenue was recorded as this segment still remained inactive for the six months ended 30 September 2013.

The profit attributable to equity holders of the Company increased from approximately HK$7.0 million for the six months ended 30 September 2012 to approximately HK$7.9 million for the six months ended 30 September 2013, which was mainly attributable to the waiver of amount due to a non-controlling interest of a subsidiary of approximately HK$2 million upon completion of the acquisition of the remaining 49% non-controlling interest of the Target Group by the Group in July 2013; and gain of approximately HK$3.1 million on reclassification of an associate, partially offsetting by the recognition of the imputed interests in respect of the zero coupon convertible bonds issued by the Company for the acquisition of the remaining 49% non-controlling interest of the Target Group of approximately HK$2.1 million.

As at 30 September 2013, the equity attributable to equity holders of the Company amounted to approximately HK$320.9 million, and the total assets and total liabilities of the Group amounted to approximately HK$755.5 million and HK$298.7 million respectively.

As at 30 September 2013, the assets of the Group mainly comprised of (i) intangible assets of approximately HK$286.1 million, which included carrying value of the technological know-how of approximately HK$284.3 million in relation to the oral insulin product and the exclusive right for the commercialisation of the Medicine owned by the Group; and (ii) the Group had total cash and bank balances of approximately HK$173.3 million which includes pledged bank deposits of approximately HK$19.8 million and an amount of approximately HK$31.8 million held in escrow for the non-controlling interest who undertook to pay to the Group upon completion of the acquisition of remaining 49% interest of the Target Group. The amount of approximately HK$31.8 million is to secure the non-controlling interest's payment obligation in respect of the outstanding purchase price payable to the then vendor of the sale of 51% interest of the Fosse Bio when it becomes due and payable, such liability accrued to the Group when the Group's acquisition of the 51% interest of the Target Company took place in 2004.

The liabilities of the Group mainly comprised of the liability portion of the zero coupon convertible bonds of approximately HK$116.3 million recorded in non-current liabilities and deferred income of approximately HK$103.1 million in relation to the acquisition of manufacturing plants of the Group by Jilin Science and Technology Information Research Institute and the cumulative compensation regarding early termination of the land use right of the factory premises held by the Group.

(b) ***Prospect of the business of the Group***

As stated in the interim report of the Company for the six months ended 30 September 2013, the Company considered that the pharmaceutical industry of the PRC would continue to benefit from the government's increasing investment in the healthcare system. The accelerated aging population and continuing urbanisation coupled with people's increasing health awareness would further stimulate the explosion of medical needs and expand the pharmaceutical and healthcare industry. The Group was in a position to consolidate its manufacturing operations in Changchun to achieve economies of scale upon relocation of its production facilities by end of year 2013. With the advancement of production capability and capacity, the Group would reinforce its core competitiveness amidst the challenging environment, thereby fostering the sustainable development and growth of the Group. The Group would also allocate its best resources in expediting the progress of the extended clinical trial, aiming at delivering a promising result to capture the market opportunities.

As a long-term development strategy, the Group strives to develop quality pharmaceutical products through its own research and development, and exploit potential products from overseas which are complementary to the Group's product portfolio through collaborative relations with international pharmas, with a view to capture the growing market demand in the PRC and maintaining steady cash flows for the Group to grasp new investment opportunities should they arise. Meanwhile, the Group has been deploying resources in advancing its manufacturing capabilities and expects to consolidate its manufacturing operations in the PRC so as to achieve economies of scale and enhance its core competitiveness in the long run.

(c) ***Information on the Target Group***

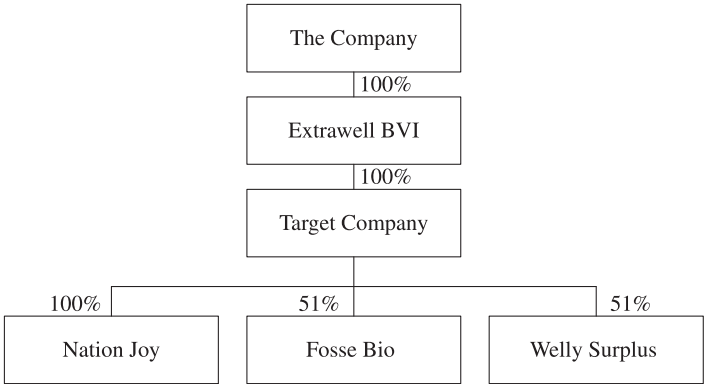
The Group acquired a 51% interest in the Target Company from Mr. Ong Cheng Heang ("**Mr. Ong**") and Ms. Wu Kiet Ming at a consideration of HK$73,000,000 in August 2004 (the "**2004 Acquisition**"). The 2004 Acquisition was subsequently ratified in the special general meeting of the Company held on 8 June 2009.

The Group further acquired the remaining 49% interest in the Target Company, which was then owned by Mr. Ong, at the consideration of HK$660,000,000 in July 2013 by issue of zero coupon convertible bonds with aggregate principal amount of HK$641,300,000 and cash of approximately HK$19 million. Since then, the Target Company has become the wholly-owned subsidiary of the Company.

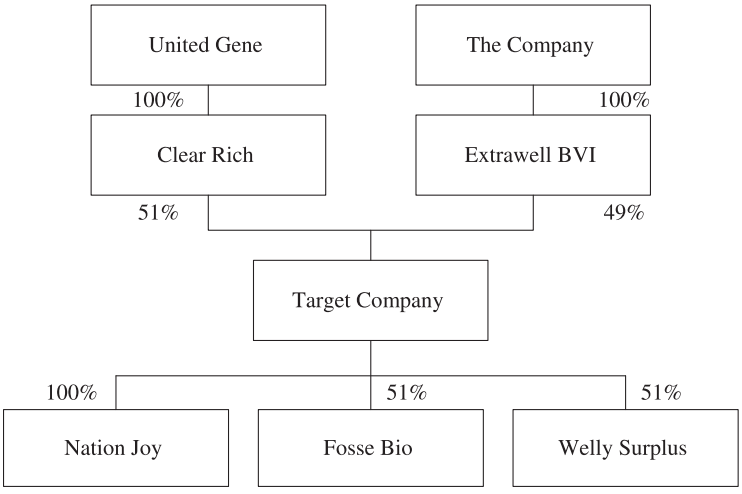
On 17 March 2014, the Purchaser and the Vendor entered into the Disposal Agreement in relation to the sale and purchase of 51% interest in the share capital of the Target Company. The Consideration shall be HK$780,000,000, as payable upon Completion and to be satisfied by issue of the Convertible Bonds by United Gene in the principal amount of HK$715,000,000 and cash payment of HK$65,000,000 to the Vendor.

Set out below is the shareholding structure of the Target Group as at the Latest Practicable Date and immediately upon Completion:

(a) Shareholding structure of the Target Company as at the Latest Practicable Date and before Completion



(b) Shareholding structure of the Target Company immediately after Completion



Note: The other businesses of the Group, which are not directly related to the Disposal, are excluded from the above shareholding structures of United Gene Group and the Group.

The Target Company is principally engaged in investment holding and is the holding company for the Group's oral insulin operations. The material assets of the Target Company are the investment holdings in Fosse Bio, Welly Surplus and Nation Joy.

Fosse Bio

Fosse Bio is principally engaged in the research and development and commercialisation of oral insulin products since its establishment in 1998. Fosse Bio and Tsinghua University, Beijing entered into the agreements in 1998 (the "**THU Collaboration Arrangement**") in connection with the research and development of the oral insulin products, including the Medicine. Pursuant to the THU Collaboration Arrangement, Fosse Bio will be entitled to commercialise the relevant technologies of the oral insulin products and to manufacture and sell the oral insulin products on an exclusive basis, and Tsinghua University, Beijing, is entitled to 1.5% of Fosse Bio's annual sales upon commercialisation of the oral insulin products. Under the joint research and development by Fosse Bio and Tsinghua University, Beijing under the THU Collaboration Arrangement, an invention "一種製備口服胰島素油相製劑的方法" (a method of production of oil-phase preparation of oral insulin) (the "**Relevant Technologies**") was patented in the PRC in 2004 and in the United States in 2006, which will be expired in April 2021 and April 2022 respectively.

After satisfactory results from pre-clinical studies, the formulation of the Medicine was approved by CFDA for clinical trials in 2003. The phase I clinical trial was designed to assess the safety of the drug, and was tested on a small number of healthy human testing subjects who did not suffer from diabetes. The phase I clinical trial was completed in early 2004. The results of phase I clinical trial indicated that oral insulin is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is safe for application.

Phase II clinical trial aims at further verifying the medical effects of the oral insulin in bringing down the glucose level and its safety in application to diabetic patients. As stated in the circular of the Company dated 25 March 2004 in relation to the 2004 Acquisition, it was originally envisaged that the clinical trial study and the grant of approval by the relevant PRC authority would be completed in the first to third quarter of 2005. The phase II clinical trial had been undertaken in the five CFDA authorised medical centers from October 2004. At the end of year 2005, the phase II clinical trial had been completed with encouraging results issued by five CFDA authorised medical centers. The result had been submitted to CFDA for approval in 2006 and CFDA indicated that additional clinical trial was required before the final assessment and approval of the Medicine. In respect of the next phase of the clinical trial, CFDA imposed more stringent requirements which include a requirement for a larger sample group of patients, and the use of double-blind tests where neither the patients nor the researchers have knowledge on which patients belong to the treatment group (where patients will be given the Medicine) or the control group (where patients will be given placebo), with a view to reducing experimental bias during the next phase clinical trial. As stated in the circular of the Company dated 21 May 2009, the Company expected the clinical trial to commence in late June 2009 and the report thereof would be prepared for approval by the CFDA by March 2010.

The phase III clinical trial protocol (the "**Protocol**") was designed by recognised clinical trial bases and led by the Peking University People's Hospital in the PRC, which consists of two parts. Part A of the Protocol relates to the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of Type 2 diabetes. With reference to the benchmark indicators, in particular, on the effect of reducing blood glucose level in diabetics through absorption of the Medicine into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the Medicine in the treatment group (where patients were given the Medicine) was significantly superior to that of the control group (where patients were given placebo). Part A of the Protocol has been completed with satisfactory results in February 2013. In order to further validate the efficacy of the use of the Medicine in more diabetic testees, Fosse Bio is working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine, among others, in larger scale of participating cases contemplated in the Protocol filed with the CFDA.

As set out in the circular of the Company dated 18 June 2013 (the "**June 2013 Circular**"), the Company originally expected that part B of the clinical trial contemplated in the Protocol will be completed with report for results thereof for evaluation by the CFDA in around January 2015 and the commencement of manufacturing of the Medicine will be in the second half of 2015 following satisfactory assessment by the CFDA. As stated in the Letter from the Board, nevertheless, during the planning of the extended clinical trial by the project team, the Company was advised by the clinical experts that the participating clinical trial base shall cover wider geographical regions in the PRC to obtain representative sampling results which would sustain a solid foundation for the clinical data to be obtained and facilitate the approval process by CFDA. Given the above, more time and coordination efforts are required in the selection of participating hospitals as originally expected in order to ensure effective implementation of part B clinical trial among the participating hospitals, and as such the commencement of the said clinical trial which was originally expected to be in or around July 2013 has to be postponed. Notwithstanding the aforesaid, with the additional efforts by the project team, it is currently estimated that the extended clinical trial based on part B of the Protocol will commence in or around July 2014 and report on the results of the clinical trial is expected to be submitted for assessment by CFDA in or around January 2016 and subject to satisfactory assessment by the CFDA which to the best estimate of the Company, approval is expected to be obtained in or around June 2016 and the commencement of manufacturing and sale of the Medicine will be in October 2016. The Directors estimate that, following Completion, further research and development costs and contingencies in relation to the Protocol prior to approval of production to be incurred will be around HK$26 million. It is also estimated that pre-marketing efforts before the commercial manufacturing and distribution of the Medicine will amount to around HK$7.4 million. These costs are estimated based on the Group's projection without taking into account United Gene's involvement upon Completion.

The report on the results of the clinical trial will be evaluated by CFDA, which is estimated to last for approximately 6 months, before final approval. Subject to the granting of the Certificate of New Medicine, a Pharmaceutical Manufacturing Permit has to be obtained before commencement of manufacturing of the Medicine. However, Shareholders should note that it is possible that the CFDA may impose further other requirements on additional clinical trial or may not approve the manufacturing and distribution of the Medicine.

Welly Surplus

Welly Surplus is currently inactive and is intended to act as the manufacturing and distribution arm of the Group in the development of the Medicine. On 19 October 2006, Welly Surplus entered into a cooperation agreement (the "**Cooperation Agreement**") with Sea Ascent Investment Limited ("**Sea Ascent**"), which is currently owned as to 70% by an independent third party namely Mr. Wang Wei and as to 30% by another independent third party namely Mr. Zhao Peng, and Fosse Bio for, among others, the establishment of a company named Jiangsu Prevalence Pharmaceutical Limited ("**Jiangsu Prevalence**") by Sea Ascent's wholly-owned subsidiary namely Joy Kingdom Industrial Limited ("**Joy Kingdom**") for acquisition of a piece of industrial land situated in the Jiangsu Province, PRC and construction of a pharmaceutical production plant thereon for the production of the Medicine in the PRC.

Sea Ascent shall procure that the plant (the "**Plant**") shall have an annual production capacity of at least 1.5 billion capsules of the Medicine, with the gross floor area sufficient for expanding its annual production capacity to at least 3 billion capsules of the Medicine, and satisfy the standards as required for obtaining the compliance certificate under the Guidelines on Good Manufacturing Practices for Pharmaceuticals (藥品生產質量管理規範) for the production of the Medicine. The above shall be financed by Sea Ascent by way of an unsecured, non-interest bearing shareholder's loan for the principal amount of RMB40 million. In return, Sea Ascent will be entitled to a fee calculated at RMB6 cents for each capsule of Medicine produced, up to a maximum of RMB180 million (on the basis that the maximum annual production capacity of 3 billion capsules of Medicine for the Plant) for a period of six years commencing from the date on which the Medicine is launched for sales in the open market (the "**Initial Operating Period**").

On the same day, Welly Surplus entered into a conditional sale and purchase agreement (the "**SP Agreement**") whereby it agreed to acquire from Sea Ascent the entire equity interest in Joy Kingdom and shareholder's loan of RMB40.0 million at a total consideration of approximately RMB40.0 million. A nominal amount of approximately RMB10,000 is payable upon completion of the SP Agreement, with the remaining balance payable within one month after the expiry of the Initial Operating Period. The Directors considered that through the entering into of the Cooperation Agreement and the SP Agreement, the Group could significantly lower its operating risk

for the development and manufacturing of the Medicine as the funding for acquisition of land use rights, and construction of the Plant as well as the machineries would be advanced by Sea Ascent. The original longstop date of the SP Agreement was on 30 November 2007 or such later date and time as the parties may mutually agree. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation whereby both parties agreed to extend the longstop date of the SP Agreement to 30 June 2010. It is noted that the extended longstop date has lapsed and as at the Latest Practicable Date, Welly Surplus and Sea Ascent have not further extended the longstop date of the SP Agreement, nevertheless, Welly Surplus and Sea Ascent have kept communication with each other and that neither party has expressed any intention to discontinue the SP Agreement. The Company will keep closely monitoring the progress of the clinical trial and approval process of the Medicine to ensure that the timetable for the construction of the Plant for the Medicine and completion of the SP Agreement will correspond to the approval process of the Medicine, which is expected to be in or about June 2016. Based on the progress of the clinical trial and approval process of the Medicine by the CFDA, Welly Surplus would decide the date for further extension of the longstop date of the SP Agreement and procure completion of the construction of the Plant.

As at the Latest Practicable Date, the piece of industrial land for the construction of the Plant has been acquired by Jiangsu Prevalence and the construction of the foundation and the surrounding walls of and the roads for access to the Plant have been completed. We have reviewed the Cooperation Agreement and the SP Agreement and noted that the Cooperation Agreement is still valid but the longstop date of SP Agreement has been expired and the SP Agreement is not currently valid. As advised by the Company, given the progress of clinical trial of the Medicine as discussed above, and without identifying any legal impediment for the entering of supplemental agreement and the extension of the longstop date of the SP Agreement, subject to further review by the Board of the then progress of the clinical trial in early 2015 and, where appropriate, the view of United Gene upon Completion, it is the present intention of the Board to enter into supplemental agreement with Sea Ascent in early 2015 for the extension of the long stop date of the SP Agreement, and to agree on the timetable for the construction of the Plant. The Company will closely monitor the progress of the clinical trial and approval process of the Medicine including the construction of the Plant for the Medicine and the SP Agreement corresponding to the approval process of the Medicine and the issuance of the Certificate of New Medicine (新藥證書), which is expected to be in or about June 2016. The Company also expects that the Pharmaceutical Manufacturing Permit could be obtained about three months after the completion of construction of the Plant, which is estimated to be in or about June 2016 and the commercialisation of the Medicine shall commence one month after obtaining the Pharmaceutical Manufacturing Permit. Subject to Completion, the Company and United Gene will formulate the development plan of the Target Group and reassess the above timetable as appropriate.

Nation Joy

Nation Joy is currently inactive and is intended to be an investment holding company.

Financial information of the Target Group

As stated in the Letter from the Board, the consolidated net asset value of the Target Company was approximately HK$254 million as at 31 March 2013. For the financial years ended 31 March 2013 and 31 March 2012, the consolidated net losses both before and after taxation of the Target Company amounted to approximately HK$4.6 million and HK$6.6 million respectively. The Target Group recorded no revenue for either financial year.

As advised by the Company, the Group's oral insulin products are still at the stage of research and development and yet to be commercialised. Therefore, the Target Group did not record any turnover for the two years ended 31 March 2013 and up to the Latest Practicable Date. The major expenses incurred by the Target Group were research and development expenses and the staff cost. Research and development expenses represented the cost incurred for the research and development of the oral insulin products which were not qualified to be recognised as intangible assets.

For the year ended 31 March 2013, the research and development expenses decreased by approximately HK$2.0 million, representing a decrease of approximately 44.9%, in comparing with that for the year ended 31 March 2012. The decrease in loss attributable for the year ended 31 March 2013 was mainly due to the decrease in the research and development expenses for the same period.

As at 31 March 2013, the Target Group recorded net asset value of approximately HK$254 million, which mainly comprised of intangible assets of approximately HK$281.5 million, which represented carrying value of the technological know-how in relation to the oral insulin product. As at 31 March 2013, the Target Group had amounts due to non-controlling interests of approximately HK$31.8 million being payable to Fordnew Industrial Limited ("**Fordnew**"), one of the existing shareholders of Fosse Bio. As advised by the Company, the amounts reduced to approximately HK$19.8 million as at the Latest Practicable Date due to that at the request of Fordnew, Mr. Ong agreed to pay the third installment of the consideration amounting to HK$12 million to Fordnew given the progress of the clinical trial, and the Company had settled the same upon taking instruction from Mr. Ong in November 2013 from the fund of approximately HK$31.8 million held in escrow for Mr. Ong. The remaining balance shall be released by Mr. Ong from the fund held in escrow by the Group upon obtaining the approval from CFDA.

As confirmed by the Company, there is no material adverse change on the financial position of the Target Group subsequent to 31 March 2013.

(d) ***Reasons for and benefits of the Disposal***

As stated in the Letter from the Board, the Directors are of the view that although upon Completion, the Target Company will cease to be a subsidiary of the Company, with the disadvantage that the Target Group will no longer be under the control of the Group and may therefore affect the liquidity of the remaining investment of the Group in the Target Group, the Company will still retain 49% equity interest in the Target Company as investment and will be able to benefit from the Purchaser's undertakings (the "**Undertakings**") to solely assume the total future capital and operating expenditures of the Target Company for a period of 3 years from the Completion Date of the Disposal Agreement and with an aggregate amount not exceeding HK$600,000,000 for the future development of Target Company including the research and development in the clinical trial of the Medicine and relieve the Group from the burden of having to make any capital contributions to the Target Company for the period of 3 years and maintain the benefit of enjoying the fruit of any success in the research and development in the clinical trial of the Medicine. Details of the usage of the Capital Commitment are set out in the Letter from the Board. The Group can also enjoy and benefit from the synergy effect that United Gene may bring to promote the Medicine beyond the PRC to markets in the United States and Europe. According to United Gene and to the best knowledge, information and belief of the Board, it is a prerequisite to obtain approval of the Medicine from the relevant authorities in the United States and Europe before it is permitted to explore and develop the markets in the United States and Europe. United Gene will use its best endeavour to develop the Medicine overseas and in the coming four to five years, it will focus on completing the clinical trials and obtaining approval of the Medicine from the relevant authorities and intends to keep open the long-term option of pursuing the development and exploitation of the Medicine's potential markets in the United States and Europe in the future and will consider factors, including but not limited to, market conditions, price, cost and selection of business partners for exporting the Medicine to overseas.

Although the Group has not been provided with detailed development plan of the commercialisation of the Medicine in the United States and Europe, according to United Gene, subject to the Completion, phase I clinical trial will be initiated in the United States and Europe in or about July 2014 and July 2015 respectively and subject to the conclusion of the phase I clinical trial, clinical trials will proceed to the next phase. United Gene expects that the approval by USFDA and Europe for commercialisation will be in or around 2019 and 2020 respectively. Notwithstanding that the Group has had no export sales experience of pharmaceuticals to the markets in the United States and Europe, the Group notes that according to the publicly available information from International Diabetes Federation ("**IDF**"), the diabetic population in 2013 of the Unites States and Europe amounted to approximately 24.4 million and 56 million respectively. The medical expenditure on diabetes in the United States amounted to an estimate of US$239 billion, while Europe amounted to an estimate of US$147 billion in 2013. Moreover, according to IDF, in 2013, the average health expenditure relating to each diabetes patient is about US$9,800 in the United States, about US$4,183 in Europe (based on the average of Germany, Spain, Italy, France and the United Kingdom) and about US$333 in China, which indicates a solid customer base for a potential

drug such as the Medicine. Moreover, with the cash payment of the Consideration generated from the Disposal and the interest payments generated from the Convertible Bonds, the Group can enhance the resources it may deploy to its other existing pharmaceutical business to improve their performances and to look for other profitable investment opportunities. Therefore, the Directors believe that benefits to the Group including but not limited to (i) the relief of short to medium term financial burden on the development of the Target Group; (ii) the possibility of shortening the time to the commercialisation of the Medicine in the PRC and the synergy effect in the geographical expansion to the United States and Europe markets; and (iii) offload certain extent of business risks in relation to the operation of the Target Group, as a whole arising from the Disposal will out-weigh any detrimental effect of the Target Company ceasing to be a subsidiary of the Company, and consider that although the Disposal is not in the ordinary course of business of the Group, the terms of the Disposal Agreement and the Consideration are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As advised by the Company, notwithstanding the Disposal, the Company is confident with the prospect of the Target Group and believes that the Target Group will bring economic benefit to the Group in the near future. It is noted that the Group has formulated the business plan for commercialisation of the Medicine upon obtaining the approval from CFDA, including the entering into of the Cooperation Agreement and the SP Agreement as discussed above.

Following to our discussion with the Company, the Company has taken into account the following consideration when the Company was approached by United Gene regarding the Disposal:

Shift part of uncertainty on the timing of commercialisation of the Medicine and relief of short to medium term financial burden on the development of the Target Group

As discussed above, the clinical trial of the Medicine commenced as early as in 2004. Based on the current estimation of the management of the Company, part B of the Protocol will commence in or around July 2014 and report on the results of the clinical trial is expected to be submitted for assessment by CFDA in or around January 2016. Given the timing of commercialisation of the Medicine, which will delay the payback period on the Group's acquisition cost in the Target Group and will further increase the cost required for the research and development of the Medicine, the Disposal will allow the Group to fully recover its acquisition cost in 100% interest in the Target Company of HK$733,000,000 and realise an immediate gain on disposal of approximately HK$408 million.

Assuming the Disposal did not materialise, the Group is required to provide continuous financial support to the clinical trial of the Medicine and the capital expenditure for the commercialisation of the Medicine. Given the uncertainty of the timing of commercialisation of the Medicine, the Group may need to incur additional expenditure beyond its current estimation. Pursuant to the Disposal Agreement, the

Purchaser has undertaken to the Vendor, on a best endeavour basis, that for a period of 3 years from the Completion Date of the Disposal Agreement, the Purchaser, shall solely assume the total future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Company's future development of its oral insulin technology. The Purchaser further undertakes and acknowledges that the Group will not be required to contribute capital to the Target Company until the time that the Purchaser has fully paid the Maximum Capital Commitment. The Undertakings will relieve the Group from further investment in the development of the Medicine in the coming three years, which shall be contributed by the United Gene Group.

Enjoy the possibility of shortening the time to commercialisation of the Medicine in the PRC and synergy effect in the geographical expansion to the United States and Europe markets without further investment in the coming three years

Upon completion of the Disposal, the Company will retain 49% interest in the Target Company as investment in an associate. Given the Undertakings, the United Gene Group will be responsible for all expenditure incurred for the purpose to further the research, development and commercialisation of the Target Group's oral insulin technology, including but not limited to cover completion of clinical trials, marketing, selling and distribution of the oral insulin products and other administrative and general expenses and related capital commitments up to the Maximum Capital Commitment in the coming three years. The Group will not be required to contribute any capital until the Purchaser has fully paid the Maximum Capital Commitment. In the event that the Medicine is successfully launched within the coming three years, the Group will enjoy economic benefit through its 49% interest in the Target Company.

Furthermore, as disclosed in the Letter from the Board, according to United Gene, after the Completion, United Gene will assume management control over the Target Group including Fosse Bio and with the availability of funding for the Capital Commitment, United Gene has planned to shorten the timetable for the development of the Medicine in the PRC and to obtain approval of the Medicine in the PRC to June 2015 and the commercial manufacturing and sales of the Medicine in the PRC to November 2015 by proposing, subject to change and confirmation of United Gene, to (i) conduct multiple clinical trials by contracting sixteen hospitals concurrently i.e. twice the number of hospitals the Company has originally planned; (ii) hire four to six additional supervisors to coordinate and operate the clinical trials in conjunction with the contract research organisation and the increased number of hospitals; and (iii) utilise the multi-regional clinical trial pathway that involves starting phase 1 in the United States or Europe to reduce the approval time by the PRC government.

To the best knowledge, information and belief of the Board, United States is a more developed country and USFDA has a longer history. According to United Gene, USFDA has more experience and expertise in processing new drugs applications, moreover, as

officers of CFDA have attended training programmes provided by the USFDA regularly, it is believed that if a new drug is being approved by the USFDA, the drug will have a higher possibility of obtaining earlier approval by the CFDA, as it is expected that CFDA will consider the relevant clinical trial data and will be more receptive in reviewing those clinical data which may help to reduce the number of queries expected to be raised by CFDA as compared with clinical trials being conducted in the PRC alone.

As announced by United Gene on 31 October 2013, Dr. Yu Wei Ping ("**Dr Yu**"), aged 55, has been appointed as adviser and joint chairman to the Department of Innovation and Strategic Development of United Gene since 25 October 2013, to provide innovation and strategy consultation in the pharmaceutical industry to the United Gene Group in relation to research and development of their pharmaceutical and biotechnological related projects and products as well as other scientific technologies. Dr. Yu holds a Doctor of Science in Pharmaceutics from the Centre d' Etude Pharmaceutique, Université de Paris-Sud, France, a Master of Science in Pharmaceutics from the Shanghai Institute of Pharmaceutical Industry, the PRC and a Bachelor of Science in Pharmacy from Shanghai Traditional Medical University, the PRC. Dr. Yu has extensive experience in the pharmaceutical and biotechnological industry. Dr.Yu was a senior director at Celsion Corporation, US; director at Adherex Technologies Inc., Canada and senior scientist at Valentis, Inc., US. According to United Gene, Celsion Corporation, US, Adherex Technologies Inc., Canada and Valentis, Inc., US are corporations engaged in the businesses relating to pharmaceutical products and new drugs development and Dr. Yu possesses substantial experience in the US market and has extensive experience in the pharmaceutical and biotechnological industry. Dr. Yu is the Chief Scientific Officer of Xian Libang Pharmaceutical Limited and Vice-President of Xian Libang Pharmaceutical Industry Group Limited within the Xi'an Libang Enterprises Group. The Xi'an Libang Enterprises Group is a high-tech biopharmaceutical-oriented corporate group specialising in the development, production and distribution of over 100 pharmaceutical and nutritional products with its research teams and network of professionals in Canada, China and the US, as to facilitate the timely approval of their PRC pharmaceutical products. Dr. Yu is experienced in using multi-regional clinical pathway and obtaining approval for medicines in the PRC in a timely manner and examples of new drugs with an earlier approval from the CFDA after initiating clinical trials in the US are Metolazone and Droperidol.

Further to the PRC market, the Company understands that the United Gene Group plans to expand the business of the Target Group to the United States and Europe markets. According to the information from IDF as discussed previously, there exists a solid customer base with significantly higher spending capabilities in the United States and Europe markets as compared to those of the PRC market for a potential drug such as the Medicine. Notwithstanding that the Group and United Gene have no export sales experience of pharmaceuticals to the overseas markets, the Group understands from United Gene that they have been deploying resources aiming at developing these markets.

According to United Gene, Dr. Yu has already provided necessary advice to United Gene concerning the process and procedure requirements for conducting clinical trials in the United States. Upon Completion, United Gene will initiate clinical trials in the United States in July 2014 and it will closely monitor the progress of the clinical trials in the United States with the Contract Research Organisation (the "**CRO**") in the United States and it will use its best endeavour to expedite the progress of the clinical trials in the United States. The Group could therefore utilise the expertise and manpower of the United Gene Group to expand the geographical coverage of the Medicine to the United States and Europe markets.

Offload certain extent of business risks in relation to the operation of the Target Group to United Gene Group

There is no assurance that the projected revenue of the Target Group can be realised as market acceptances, level of market penetration, sales and pricing can only be broadly estimated at this stage where production of the Medicine is yet to be commercialised. Rival products, competition from existing insulin products, branding and reputation, availability, convenience of use and certain other factors may also adversely affect the successful commercialisation of the Medicine in the PRC diabetic market. The cooperation with the United Gene Group which is expected to promote the Medicine beyond the PRC to the United States and Europe, can diversify the concentration risks in single market and increase the market share of the Medicine in the globe and enable the Company to enjoy the full extent of the first-mover advantages by tapping into the diabetic drug market of any potential region around the world. Furthermore, the current operations of the Target Group are subject to PRC laws and regulations and the pharmaceutical industry in the PRC is subject to extensive government regulation and supervision. Changes in regulatory measures and future government regulations may lead to significant changes in the PRC pharmaceutical industry which may in turn result in material adverse effect on the operations and prospects of the Target Group including but not limited to increased costs and lowered profit margins. As advised by the management of the Group, expanding into the pharmaceutical industry in the United States and Europe, markets where the management of the Group considered to be more mature and developed as compared to the PRC, can diversify the political, economic and legal risks involved in the launching of the Medicine.

In addition, notwithstanding the Medicine achieved satisfactory results from the clinical trials conducted up-to-date, it is possible that the Medicine will eventually fail to obtain CFDA approval, or CFDA may impose further requirements or raise queries on the clinical trials thereby creating hurdles for the final approval. Moreover, the registered patent in the PRC and the United States will be expired in April 2021 and April 2022 respectively. Upon the expiry of the patents, the Medicine could become generic medicine, allowing other drug manufacturers to manufacture the Medicine without patent infringement, and thus increase competition in the oral insulin market if the Group could not continue to improve its manufacturing techniques, quality control and cost control in

respect of the Medicine, and/or to develop newer version of the medicine or other replacement drugs with superior functionality and significant changes to the version under the expired patent The Disposal allows the Group to reduce the potential risks and uncertainties of the prospects of the Medicine, and at the same time capture the potential benefit from the future growth and success of the Target Group.

Focus on development of existing core business of the Group

As stated in the Letter from the Board, subject to review by the Board from time to time, the Company intends to apply the net cash proceeds from the Disposal, which is currently estimated to be approximately HK$63 million, as to HK$20 million on additional working capital in increasing the research and development capabilities in its manufactured products, including but not limited to deploying financial and human resources in research team to develop new product lines and extend product range, as to HK$20 million on pursuing potential products from overseas pharmaceutical corporations which shall complement the existing product portfolio of the Group, by deploying additional marketing talents to liaise with overseas corporations on identifying potential products, organising conferences and medical meetings to increase the exposure of the Group and the remaining balance of HK$23 million on identifying new investment opportunities with a view to increasing the corporate value of the Company should it arise. The above planned use of proceeds of the Group is in line with the business strategies of the Group as discussed in section (1)(b) previously, which the Group believes to strengthen its market penetration and capture market shares of the promising PRC pharmaceutical markets. The cash payment of the Consideration from the Disposal and the interest income generated from the Convertible Bonds can enhance the resources of the Group in operating and developing its existing pharmaceutical businesses including but not limited to the consolidation and enhancement of the manufacturing facilities in Changchun city.

In view of the above, although the Disposal is not in the ordinary and usual course of business of the Group, we concur with the view of the Directors that the Disposal is in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Disposal Agreement

(a) ***The Consideration and its basis of determination***

The Consideration shall be HK$780,000,000 and shall be payable upon Completion and to be satisfied in the following manner:

(i) an aggregate sum of HK$715,000,000 shall be payable by issue of the relevant Convertible Bonds by United Gene in the principal amount of HK$715,000,000 to the Vendor or its nominee(s) (as it may direct in writing) upon Completion; and

(ii) an aggregate sum of HK$65,000,000 shall be payable in cash by the Purchaser to the Vendor (or its nominee(s) as it may direct in writing) upon Completion.

As stated in the Letter from the Board, the Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser and was determined with reference to, amongst others:

(i) the original acquisition costs of the Target Company, as to 51% and 49% by the Group in 2004 and 2013 respectively at the consideration of approximately HK$73,000,000 and HK$660,000,000;

(ii) the value of the Target Group as at 28 February 2013 as appraised by Castores Magi Asia Limited ("**Castores Magi**") on its valuation report dated 18 June 2013;

(iii) the consolidated net asset value of the Target Company as at 31 March 2013 of approximately HK$254,000,000 (approximately HK$281,500,000 of which represents the intangible assets of technological know-how in relation to the Medicine);

(iv) the historical financial position and performance of the Target Company with no revenue for the financial years ended 31 March 2013 and 31 March 2012 and consolidated net losses both before and after taxation of approximately HK$4,600,000 and HK$6,600,000 respectively;

(v) the future prospects of the Target Company and the progress of the clinical trial of the Medicine in the course of its negotiation of the terms of the Disposal Agreement with the Purchaser including the Maximum Capital Commitment that the Purchaser has undertaken to make to the Target Company within the Commitment Period be applied in the aspects of research and development of oral insulin products, particularly for purpose of clinical trials in the United States and Europe, and for capital expenditure and working capital requirements; and

(vi) the synergy effect that United Gene may bring by deploying its scientific expert to promote the Medicine beyond the PRC to markets in the United States and Europe.

As shown in the section (1)(c) previously, the Target Group was loss making for the two years ended 31 March 2013, and the oral insulin project is yet to be commercialised. As such, price-to-earnings ratio is not considered relevant in assessing the Consideration.

It is noted that the Consideration is at a premium over the net asset value and fair value of the intangible assets of the Target Group. As advised by the management of the Group, apart from the net asset value and fair value of the intangible assets of the Target Group, the industry prospects and the growing diabetic drug market in which the Target Group operates

in, and the progress of the clinical trial of the Medicine are the key factors in determining the Consideration. The historical net asset value and fair value of the intangible assets of the Target Group alone may not be indicative for future earning power of the Target Group.

After taking into account the above and the view of Castores Magi on the valuation approach adopted in the valuation report, in particular that it is not appropriate to adopt alternative valuation approach such as market approach and cost approach for a group of companies which is in research and development stage and loss-making, we consider that it is more appropriate to assess the Consideration against the valuation of the economic value to be derived from commercialisation of the Medicine. Based on the estimated cash flow projections made by the management of the Group, Castores Magi appraised the entire equity interest of the Target Group at approximately HK$1,938 million as at 28 February 2014 (the "**Valuation**").

(b) ***Valuation of the Smart Ascent Group***

Castores Magi appraised the equity interest of Smart Ascent on the basis of the financial projections of the Smart Ascent Group from 1 April 2013 to 31 March 2021 prepared by the Company (the "**Financial Projections**"). We have discussed with Castores Magi the methodology and assumptions used in performing the Valuation and with the Company on major bases and assumptions used in the Financial Projections. The full text of the valuation report from Castores Magi is contained in Appendix II to the Circular.

We have reviewed the terms of engagement of Castores Magi (including the scope of work) and has interviewed Castores Magi including as to, among others, its expertise and independence. We noted that Castores Magi has over 12 years of experience in business valuation and the valuation report has been prepared in accordance to the International Valuation Standards 2011 published by The International Valuation Standards Council and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors and has confirmed its independence with the Company. Based on the above, we are of view that the scope of work of Castores Magi is appropriate and Castores Magi is independent and is qualified to carry out its work in relation to the valuation of the Target Group.

Methodology and assumptions used in the Valuation

Valuation approach

In the process of appraising the equity interest of Smart Ascent, Castores Magi considered three valuation approaches, namely the market approach, cost approach and income approach. We concur with Castores Magi that the market approach is not appropriate in the circumstances as, to the best understanding of Castores Magi, there has been no public sale and purchase of similar business transactions that completed in Hong Kong and the PRC. We also concur with Castores Magi that the cost approach, which normally neglects the future business growth and is normally suitable for a

manufacturing company, is not appropriate for valuing an innovative project such as the one which Smart Ascent is embarking on. The income approach, which measures the present worth of the net economic benefit to be received and focuses on the income-generating capability of a company, was considered by Castores Magi (also concurred by us) the most appropriate approach for appraising the equity interest of a company like Smart Ascent.

Under the income approach, the discounted cash flow method was used by Castores Magi, which estimated the market value of Smart Ascent by discounting the future free cash flows to be generated by Smart Ascent, including revenues and costs, at a relevant rate of return required by equity to its present value.

Discount rate

A discount rate of 18.2% was used by Castores Magi in discounting the future free cash flows generated by Smart Ascent. The discount rate was determined using the capital asset pricing model and applying the risk-free rate of 2.44%, unlevered beta of 0.62, risk premium of 19.03%, country risk premium of 2% and investment specific risk premium of 2%.

Based on our discussion with Castores Magi about the selection criteria of the guideline companies, we noted that the guideline companies were solely extracted from the article "New Diabetes Drug Moving Through the Pipeline" dated 11 November 2013 (the "**Article**") published by Genetic Engineering & Biotechnology News ("**GEN**"). We understand that Castores Magi is not aware of any source of information containing exhaustive list of companies developing new diabetes drugs and has, to its best effort and knowledge, conducted its independent research on the pharmaceutical and biotechnology industry in identifying the guideline companies, including but not limited to, the review of biotechnology related articles and websites such as GEN. GEN has retained its position as the number one biotech publisher around the globe since its launch in 1981. GEN publishes a print edition 21 times a year and has additional exclusive editorial content online, like news and analysis as well as blogs, podcasts, webinars, polls, videos, and application notes. GEN's unique news and technology focus includes the entire bioproduct life cycle from early-stage research and development, to applied research including omics, biomarkers, as well as diagnostics, to bioprocessing and commercialisation. Given the long-term experience and reputation of GEN in the biotechnology industry, Castores Magi considers that the Article is a relevant and reliable source of information and the companies mentioned in the Article are representative samples for its valuation report and it is in compliance with The HKIS Valuation Standards (2012 Edition) in formulating the guideline companies from the Article. We have also reviewed the Article and the background information of GEN and the guideline companies. We noted that all the guideline companies are conducting the clinical trials of new diabetic drugs and is comparable to the principal business of the Target Group.

Based on the foregoing, we consider that the selection method of the guideline companies is reasonable and a fair and representative list of samples was selected for valuation purposes.

Further to our discussion with Castores Magi about the bases used for determining the discount rate and our independent research including but not limited to the review of the market risk-free rate and background information of the guideline companies selected under the valuation report, we considered that such discount rate is justifiable.

Terminal value

Of the approximately HK$1,938 million valuation on the entire interest of Smart Ascent, approximately 60.75% is attributable to the terminal value which was calculated by discounting the forecast cash flow as from 31 March 2021, by then the economic return from the oral insulin project is expected to have reached a stable level, and assumes no further growth.

We notice that the patent in the PRC granted to Fosse Bio and Tsinghua University, Beijing, in respect of the Relevant Technologies will expire in April 2021. In assessing the terminal value, we discussed with Castores Magi about the potential impact on the Valuation in relation thereto and understood that Castores Magi considered that there is no concrete basis to assume non-renewal of the patent registration after expiry and has assumed a perpetual stable free cashflow to the Smart Ascent Group after the expiry of the patent. There is no specific provision under the laws of the PRC for the renewal of patent registration. As advised by the Company, assuming the Medicine being commercialised in the second half of 2016, the Company considers that even if the patent registration in the PRC cannot be renewed after April 2021, the Group would (i) have enjoyed the first-mover advantage by being the first entrant to gain the customers' acceptability and loyalty given that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is no other pharmacist having undertaken phase II clinical trial in the PRC in relation to research and development of oral insulin medicine as at the Latest Practicable Date based on the public information available; (ii) have well established marketing and sales channel and brand image of the Medicine; and (iii) have achieved economies of scale to reduce cost of production, and should possess competitive advantage over the new market entrants and continue to enjoy economic return from the Medicine.

Discount for lack of marketability (the "**LOM**")

The equity interest of Smart Ascent itself is not readily marketable as a public listed company. Castores Magi therefore applied a LOM discount of 35% to the net present value of the future free cash flows of the Smart Ascent Group. We have discussed with Castores Magi and understood that, in determining the LOM, Castores Magi made reference to the previous research and studies on the average discounts for closely held

companies compared with publicly traded counterpart averages, which ranged from 10% to 50%. We concur with Castores Magi's conservative approach and the application of LOM discount of 35% is reasonable in this regard.

Major bases and assumptions used in the Financial Projections

Timing of commercialisation

Fosse Bio is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial with more extensive sampling of the Medicine, being part B of the Protocol filed with the CFDA. The progress and results from the clinical trials up-to-date indicated that the Medicine achieved positive effect, in particular, the statistical outcome of the per-protocol set (PPS) analysis relating to part A of the Protocol shows that the bio-efficacy of the Medicine in the treatment group was significantly superior to that of the control group on the effect of reducing blood glucose level in diabetics and the Company believes that there would be no major obstacle in completing the extended clinical trial for the Medicine and obtaining the final approval from CFDA for production and distribution of the Medicine in the PRC. As discussed in section (1)(c) previously, it is noted that the clinical trial was commenced as early as 2004 and has encountered several delays beyond the original expectation of the management of the Company. As disclosed in the June 2013 Circular, the Company had estimated that part B of the Protocol would be completed and the report thereof would be prepared for approval by the CFDA by January 2015. Nevertheless, during the planning of the extended clinical trial by the project team, the Company was advised by the clinical experts that the participating clinical trial base shall cover wider geographical regions in the PRC to obtain representative sampling results which would sustain a solid foundation for the clinical data to be obtained and facilitate the approval process by CFDA. Given the above, more time and coordination efforts are required in the selection of participating hospitals as originally expected. Notwithstanding the aforesaid, with the additional efforts by the project team, it is currently estimated that the extended clinical trial based on part B of the Protocol will commence in or around July 2014 and report on the results of the clinical trial is expected to be submitted for assessment by CFDA in or around January 2016. The Group currently plans to commence the manufacturing and the commercialisation of the Medicine in or around October 2016, i.e. the second half of financial year ended 31 March 2017.

Notwithstanding the further progress in part B of the Protocol and the experience gained through the previous phases of clinical trials, taking into account the history of delay to the commercialisation of the Medicine, when we assessed the reasonableness of the Valuation, we would also consider the sensitivity analysis in respect of the timing of commercialisation as a conservative approach.

Based on the sensitivity analysis performed by Castores Magi on the impact of a postponement of commercialisation on the Valuation, the value of the 51% interest of Smart Ascent Group will reduce to approximately HK$836 million, HK$707 million, HK$599 million, HK$506 million and HK$428 million in the event that the financial commercialisation is postponed for 1 year, 2 years, 3 years, 4 years and 5 years respectively. Details of the sensitivity analysis are set out in the valuation report from Castores Magi contained in Appendix II to the Circular.

The PRC diabetic population and market share in the PRC diabetic market

In estimating the revenue to be generated from marketing the Medicine in the PRC, the Company included the whole diabetic population in the PRC as its target market, including the type 1 diabetics and type 2 diabetics. As type 1 diabetics cannot produce insulin by themselves, they must take insulin to restore the insulin level in their bodies and oral insulin can be effective in this respect. On the other hand, the treatment of type 2 diabetics can be a combination of continuous diet, exercises and the use of oral anti-diabetic drugs ("**OADs**"), which aim to lower glucose level in the human body. The Company is of the view that insulin is a preferred treatment to OADs for type 2 diabetics as OADs are considered to create more adverse side-effects to patients. Based on the above, the Company believes that the prospective target customers can include both type 1 diabetics and type 2 diabetics in the PRC and this seems reasonable.

The Company estimated a diabetic population (including both type 1 diabetics and type 2 diabetics) of approximately 98 million in the PRC when the Medicine is about to commence commercial sales in the second half of 2016, with a growth of 0.5 million annually afterwards, which roughly translates to 0.5% annual growth. Reference is made to the estimate of IDF, pursuant to which, the adult (that is 20–79 years old) diabetic population in the PRC amounts to approximately 98.4 million in 2013. Furthermore, according to IDF, the global number of people who have diabetes will rise to approximately 592 million by 2035, which translates into a compound annual growth rate of approximately 2% for the period from 2013 to 2035.

Based on the management's experience and the consideration of launching a new diabetic treatment method of oral insulin, the market price of the comparable insulin medicine and OADs and the advantages of oral insulin, the Company made the following assumptions on the percentages and subsequent growth of market share in the type 1 diabetic population and type 2 diabetic population respectively in estimating the market share of the Medicine in the PRC diabetic population (assuming the commercialisation of the Medicine will commence in October 2016):

	Market share in	
	Type 1 diabetic population	**Type 2 diabetic population**
Year 1	0.50%	1.50%
Year 2	0.80%	1.80%
Year 3	1.20%	2.40%
Year 4	1.50%	3.20%
Year 5	1.80%	4.00%

In estimating the market share of the Medicine, the Company considered (i) the market shares of existing competitors in the insulin market in the PRC; (ii) the growth potential of the market share with reference to the management's knowledge of penetration of other new medicines in the PRC; and (iii) the Company's focus on marketing the Medicine to type 2 diabetic population. We have conducted independent industry research on the recent development of the PRC insulin medicine and OADs industry and market price of the comparable insulin medicine and OADs based on publicly available information such as IDF Diabetes Atlas Sixth Edition published by IDF in 2013, Diabetes Drug Market Research 2012 published by MENET (中國醫藥經濟信息網) (a platform administered by CFDA) and an article relating to diabetic drugs dated 3 September 2013 published on Bloomberg and investigated the unique features and advantages of the Medicine.

Notwithstanding that United Gene Group plans to promote the Medicine to markets in the United States and Europe upon Completion, it is noted that the Valuation assumes that the diabetic population is based in the PRC only. We concur with the view of the Company that such basis of preparation for the Valuation (including PRC market only) is fair and reasonable after taking into account that (i) the expertise of the Company on the development of the Medicine in the PRC market only but not markets in the United States and Europe; (ii) the original development plan of the Company on the Medicine was to focus on the PRC market only in the absence of the Disposal; (iii) in the point of view of the Company, the Disposal refers to the disposal of interests in the future economic benefits to be generated by the Medicine in the PRC only given that the Company is not capable to promote the Medicine to the markets in the United States and Europe without the involvement of United Gene; and (iv) the Company did not have

information of United Gene Group's development plan of the Medicine on the markets in the United States and Europe before Completion and the implementation of such development plan will be relied on United Gene.

Pricing

The Company estimated a price of RMB2.75 (or approximately HK$3.40) per capsule (with 50 units of insulin). Based on the findings from the previous clinical trials, the management estimates that the suitable level of intake of the Medicine for type 1 diabetics and type 2 diabetics per day are 200 units and 100 units of insulin intake respectively, which is equivalent to 4 capsules and 2 capsules of the Medicine respectively.

We have reviewed the history and development of the clinical trials of the Medicine and the market price of the comparable insulin medicine and OADs. Besides, based on the sensitivity analysis performed by Castores Magi on the impact of a lower unit selling price on the Valuation, the value of the 51% interest of Smart Ascent Group reduces to approximately HK$774 million and HK$560 million in the event that the selling price decreased by 5% and 10% respectively. Details of the sensitivity analysis are set out in the valuation report from Castores Magi contained in Appendix II to the Circular.

In determining the pricing of the Medicine, which is the wholesale distribution price of the Medicine, the Company considered the market acceptability of the estimated retail price of the Medicine. In the opinion of the management, distributors may accept a lower margin for an unprecedented new drug like oral insulin which is generally believed to have great market potential. In assessing the market acceptability of the estimated retail pricing, the management referred to the pricing of injected insulin and OADs currently available in the PRC market.

Cost of sales and other expenses

Cost of sales in the Financial Projections was separated into variable and fixed components, and the variable components contributed to the majority of the cost of sales. Variable component in cost of sales included the cost of local insulin which is the main component of the Medicine, and other chemical components. The variable component also included variable processing costs incurred in the production of the Medicine, including but not limited to the fee payable under the Cooperation Agreement. Fixed costs included principally land and property taxes and other fixed factory overheads such as labour cost.

We have reviewed the history and development of the clinical trials of the Medicine and the Financial Projections. Besides, a sensitivity analysis was performed by Castores Magi on the impact of a higher cost of sales on the Valuation, which reduces the value

of the 51% of Smart Ascent Group to approximately HK$794 million in the event that the cost of sales increased by 10%. Details of the sensitivity analysis are set out in the valuation report from Castores Magi contained in Appendix II to the Circular.

Expense items are principally marketing and distribution expenses and administrative expenses. It was estimated that these expenses will increase in proportion to the increase in revenue in order to secure the target market share. Major item in the estimated marketing and distribution expenses included the amount payable to Tsinghua University, Beijing, which will be calculated based on 1.5% of annual sales of the Medicine. Other items include finance costs, pre-operating expenses, amortisations and income tax.

Conclusion

Based on the above and our due diligence including but not limited to, review of historical financial information of the Smart Ascent Group and the Financial Projections, review of the published announcements and circulars of the Company relevant to the Disposal etc., and having discussed with Castores Magi and the Company regarding, among others, (i) the bases and assumptions of the Financial Projections; (ii) the scope of work and assumptions of the Valuation; and (iii) the valuation basis and methodologies adopted as discussed above, nothing material has come to our attention that would lead us to believe that the valuation report from Castores Magi was not prepared on a reasonable basis nor reflected estimates and assumptions which have been arrived at after due and careful consideration. Therefore, we consider that the basis, assumptions and methodologies adopted by Castores Magi for the valuation are appropriate.

The Consideration of HK$780 million represents a shortfall of approximately HK$208.4 million or a discount of approximately 21.1% to the valuation of approximately HK$988.4 million attributable to 51% equity interest of the Target Group (the "**51% Valuation**") as assessed by Castores Magi.

Notwithstanding the shortfall of approximately HK$208.4 million of the Consideration to the 51% Valuation, after aggregating with the other monetary benefits resulting from the Disposal including (i) the coupon interest income of approximately HK$175 million in aggregate throughout the terms of the Convertible Bonds given that it is the current intention of the Company to hold the Convertible Bonds upon maturity; and (ii) the savings on the planned expenditure of approximately HK$26 million on the clinical trials of the Medicine to be incurred before obtaining of the approval of production and of approximately HK$7.4 million for pre-marketing efforts before commercial manufacturing and distribution of the Medicine as discussed in section (1)(c) previously, the Consideration is indeed comparable to the 51% Valuation in this regard.

However, Shareholders are advised to note that the conclusions of fair market value of the equity interest of Smart Ascent were based on generally accepted valuation procedures and practices that rely exclusively on the use of numerous assumptions which

involve certain degree of risks and uncertainties due to possibility of non-fulfillment of the assumptions that are not easily quantified or ascertained. Any material deviations of any such assumptions would materially affect the Valuation.

Based on the sensitivity analysis performed by Castores Magi on the impact of a postponement of commercialisation on the Valuation, the 51% Valuation of Smart Ascent Group will reduce to approximately HK$836 million, HK$707 million, HK$599 million, HK$506 million and HK$428 million in the event that the commercialisation of the Medicine is postponed for 1 year, 2 years, 3 years, 4 years and 5 years respectively. As such, the Consideration may exceed the 51% Valuation in the event that the commercialisation of the Medicine is postponed for 2 years or more.

Besides, a sensitivity analysis was performed by Castores Magi on the impact of a lower unit selling price on the Valuation, which reduces the value of the 51% interest of Smart Ascent Group to approximately HK$774 million in the event that the selling price decreased by 5%. As such, the Consideration may exceed the 51% Valuation in the event that the selling price of the Medicine decreased by 5% or more.

It is further noted that the original aggregate acquisition cost of the 100% of the total issued share capital of the Target Company paid by the Group in its previous acquisition was approximately HK$733 million. Accordingly, the original acquisition cost of the Sale Shares, representing 51% of the total issued share capital of the Target Company, was approximately HK$373.8 million. The Consideration of HK$780 million represents a premium of approximately 108.7% to the original acquisition cost of approximately HK$373.8 million of the 51% the total issued share capital of the Target Company. Moreover, the Consideration of HK$780 million in respect of the 51% of the total issued share capital of the Target Company also exceeds the original acquisition cost of approximately HK$733 million of the 100% of the total issued share capital of the Target Company, whereby enable the Company to fully recover its total acquisition costs on the Target Company and meanwhile, retain 49% interest in the Target Company upon Completion as investment.

As advised by the Company, in the course of negotiation with the Purchaser, the Directors have requested for alternative settlement methods such as, among others, full cash payment and a mixture of cash and consideration shares. However, after an arm's length negotiation, the Purchaser only agreed to settle the Consideration by way of cash and Convertible Bonds to preserve funds for future development of the Medicine and avoid immediate dilution effect on the shareholding of United Gene. Having taking into account that (i) the Convertible Bonds can generate a recurring income to the Company by means of interest payments for 7 years; (ii) holders of Convertible Bonds rank at a higher seniority than equity holders in the event of insolvency; and (iii) the Maximum Capital Commitment of up to HK$600,000,000 to be incurred by United Gene Group on the development of the Medicine, we concur with the view of the Company that receipt of Convertible Bonds is acceptable in this regard.

Having considered the above, in particular, that (i) the aggregate of the Consideration, the total coupon interest income from the Convertible Bonds and the planned expenditure saved pursuant to the Undertakings of approximately HK$33.4 million is comparable to the 51% Valuation; (ii) the Consideration exceeds the total previous acquisition cost of 100% interest in the Target Company paid by the Group and the Group still retains 49% interest in the Target Company upon Completion; (iii) the sensitivity analysis of the Valuation indicates that the Consideration may exceed the 51% Valuation in the event of material adverse change in the selling prices of the Medicine and postponement of commercialisation of the Medicine; and (iv) the Maximum Capital Commitment of up to HK$600 million can save the Group from further investments in the development of the Target Group in the coming three years; and (v) the benefit of Convertible Bonds as part of the Consideration, we consider that the Consideration is fair and reasonable in this regard.

(c) ***The issue of the Convertible Bonds***

As discussed in section (2)(a) previously, HK$715,000,000 of the Consideration will be satisfied by the issue of the Convertible Bonds at initial conversion price of HK$2.5 per Conversion Share (the "**Conversion Price**"). It is noted that the maturity of the Convertible Bonds falls on the 7th anniversary from the issue date of the Convertible Bonds (the "**Maturity**"). The Convertible Bonds bear coupon interest of 3.5% per annum (the "**Coupon Interest**").

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bonds in the aggregate principal amount of HK$715,000,000 at the Conversion Price by the Vendor, the Company will obtain an aggregate of 286,000,000 new UG Shares, representing (i) approximately 25.17% of the existing issued share capital of United Gene; and (ii) approximately 20.11% of the issued share capital of United Gene as enlarged by the allotment and issue of the Conversion Shares.

Further details of the terms of the Convertible Bonds are set out under the paragraph headed "Principal terms of the Convertible Bonds" in the Letter from the Board.

(i) *Conversion Price*

The initial Conversion Price of HK$2.5 per Conversion Share, which, as advised by the Company, was determined by the Vendor and the Purchaser on an arm's length basis with reference to financial position of United Gene Group, the then current market price of the UG Shares and the prospect of the Target Group and United Gene Group, represents:

(i) a premium of approximately 73.61% over the closing price of HK$1.44 per UG Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 68.24% over the average of the closing prices of approximately HK$1.486 per UG Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

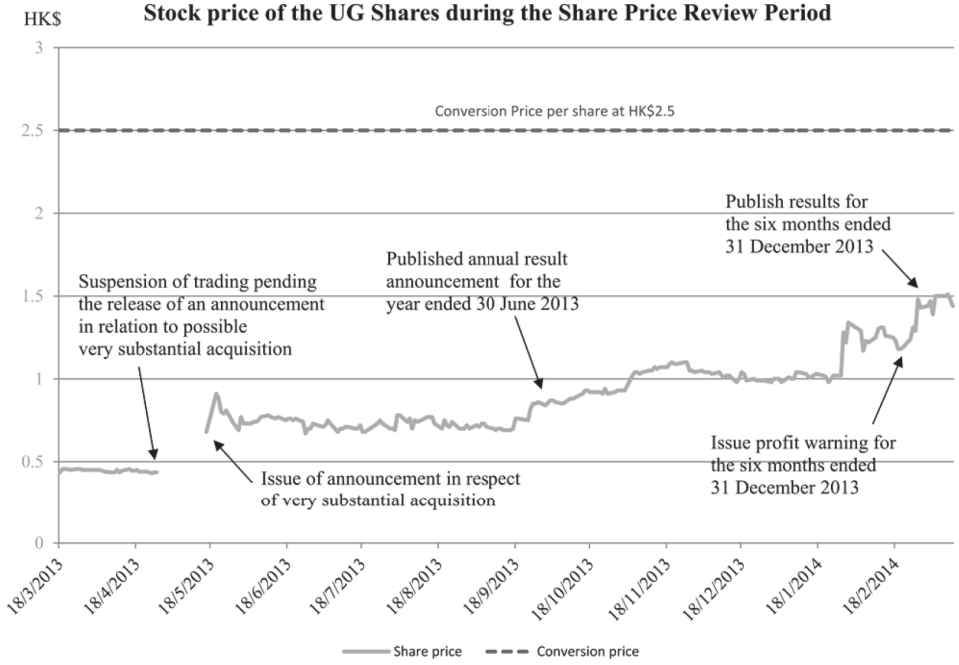
(iii) a premium of approximately 70.53% over the average of the closing prices of approximately HK$1.466 per UG Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a premium of approximately 95.31% over the closing price of approximately HK$1.28 per UG Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 273.13% over the net asset value per UG Share of HK$0.67 based on the unaudited consolidated net assets of the United Gene Group of HK$765,681,000 as at 31 December 2013 and 1,136,193,024 UG Shares in issue as at the date of the Disposal Agreement.

Historical share price performance review of UG Share

In assessing the fairness and reasonableness of the Conversion Price, we have taken into account the daily closing price of the UG Share as quoted on the Stock Exchange commenced from 18 March 2013 (being the date one year prior to and including the date of the Last Trading day, being 13 March 2014) to the Last Trading Day (the "**Share Price Review Period**").



Source: Bloomberg

During the Share Price Review Period, the daily closing price of UG Share was in the range of HK$0.43 per UG Share to HK$1.51 per UG Share. The average closing price of the UG Share for the Share Price Review Period was approximately HK$0.87 per UG Share, a discount of approximately 65.2% to the Conversion Price.

As illustrated in chart above, since the commencement of the Share Price Review Period and up to the Last Trading Day, the UG Share had been trading below HK$2.5 (i.e. the Conversion Price). The closing UG Share price has significantly increased from HK0.44 per UG Share on 18 March 2013 to a record high in 2014 of HK1.51 per UG Share on 11 March 2014, representing an increase of approximately 243.2% during the Share Price Review Period of about 1 year.

Comparable analysis

In assessing the fairness and reasonableness of the Conversion Price, we have attempted to, based on the information available on the website of the Stock Exchange, compare the price to net asset value to equity holders (the "**P/NAV Ratio**") of UG Share as implied by the Conversion Price with those of other Hong Kong listed companies as at the Last Trading Day which (i) are principally engaged in the manufacturing and sale of pharmaceutical and bio-chemical products; and (ii) have a market capitalisation between HK$1,000 million and HK$10,000 million (the "**Peer Companies**"). Based on the aforesaid criteria, we have, on a best effort basis and to the best of our knowledge, identified 27 Peer Companies, which are considered to be full and exhaustive. We have not considered the price-to-earnings ratio analysis of the Peer Companies given that United Gene Group was loss making for its financial year ended 30 June 2013. Notwithstanding that the scale of operations, operating environment, business model, taxation, accounting policies and standards and risk profile of the Peer Companies are not the same as those of United Gene, given that the nature of the principal business of the Peer Companies is similar to that of United Gene, we consider that the Peer Companies are fair and representative samples for comparison and that the analysis with the Peer Companies provides a general reference as to the market valuation of companies with similar business to United Gene as implied by the Conversion Price. We have also considered the results of the comparison together with other factors stated in this letter as a whole.

Peer Companies (stock name)	Market capitalisation on the Last Trading Day *(HK$'million)*	P/NAV Ratio *(Note 1)*
Lansen Pharmaceutical Holdings Ltd. (503)	1,594	1.89
China Grand Pharmaceutical and Healthcare Holdings Ltd. (512)	2,806	3.50
China Traditional Chinese Medicine Co. Ltd. (570)	8,691	4.80
Hua Han Bio-Pharmaceutical Holdings Ltd. (587)	7,596	1.63
Uni-Bio Science Group Ltd. (690)	1,325	1.88
Shandong Xinhua Pharmaceutical Co. Ltd. (719)	1,335	0.63
The Company (858)	1,147	3.57
Lee's Pharmaceutical Holdings Ltd. (950)	4,299	6.57
Bloomage BioTechnology Corporation Ltd. (963)	8,864	15.60
China NT Pharma Group Co. Ltd. (1011)	1,201	2.15
Essex Bio-Technology Ltd. (1061)	1,882	7.41
Kingworld Medicines Group Ltd. (1110)	1,724	3.28
CGN Mining Co. Ltd. (1164)	2,466	2.29
China Pioneer Pharma Holdings Ltd. (1345)	6,027	4.22
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co. Ltd. (1349)	6,526	11.61
Consun Pharmaceutical Group Ltd. (1681)	6,310	4.29
Lijun International Pharmaceutical (Holding) Co. Ltd. (2005)	8,760	3.24
Jintian Pharmaceutical Group Ltd. (2211)	5,200	6.12
Dawnrays Pharmaceutical (Holdings) Ltd. (2348)	4,471	3.52
United Laboratories International Holdings Ltd. (3933)	6,833	1.09
Jilin Province Huinan Changlong Bio-pharmacy Co. Ltd. (8049)	2,241	4.15
Shandong Luoxin Pharmacy Stock Co. Ltd. (8058)	5,572	2.38
Hong Kong Life Sciences and Technologies Group Ltd. (8085)	1,047	2.12
Beijing Tong Ren Tang Chinese Medicine Co. Ltd. (8138)	9,147	7.93
China Bio-Med Regeneration Technology Ltd. (8158)	3,529	6.10

Peer Companies (stock name)	Market capitalisation on the Last Trading Day *(HK$'million)*	P/NAV Ratio *(Note 1)*
New Ray Medicine International Holding Ltd. (8180)	1,064	7.69
Shenzhen Neptunus Interlong Bio-Technique Co. Ltd. (8329)	1,913	3.27
Maximum *(Note 2)*	9,147	7.93
Minimum *(Note 2)*	1,047	1.09
Average *(Note 2)*	4,035	3.96
United Gene (399)	1,636	2.17
United Gene (399) as implied by the Conversion Price *(Note 3)*	2,840	3.76

Source: Bloomberg

Notes:

(1) The P/NAV Ratio of each Peer Companies is calculated as the market capitalisation as at the Last Trading Day divided by their respective net asset attributable to equity holders based on the latest published financial results announcements.

(2) We consider the P/NAV Ratio of Bloomage BioTechnology Corporation Ltd., Shanghai Fudan Zhangjiang Bio-Pharmaceutical Co. Ltd. and Shandong Xinhua Pharmaceutical Co. Ltd. are significantly higher and lower (as the case may be) than the other Peer Companies and are regarded as outliners. Therefore, the P/NAV Ratio and the market capitalisation on the Last Trading Day of these companies are excluded from our analysis.

(3) The P/NAV Ratio of United Gene is calculated using the Conversion Price divided by the net asset attributable to its equity holders per UG Share as at the Last Trading Day. The net asset attributable to its equity holders per UG Share is calculated by dividing net asset attributable to its equity holders of HK$755,504,000 based on the latest published financial results announcement by total number of 1,136,193,024 UG Shares as at the Last Trading Day.

As illustrated in the above table, the P/NAV Ratio of the Peer Companies ranges between approximately 1.09 times to approximately 7.93 times, with an average of approximately 3.96 times. The P/NAV Ratio of United Gene as implied by the Conversion Price of HK$2.5 of approximately 3.76 times is within the range and below the average of the P/NAV Ratios of the Peer Companies.

Notwithstanding that conversion price of the Convertible Bonds represents a significant premium of approximately 73.61% over the closing price of UG Share as quoted on the Stock Exchange on the Last Trading Day and is higher than the range of the Comparable Transactions (as defined below), after taking into account that (i) the P/NAV Ratio of United Gene as implied by the Conversion Price of approximately 3.76 times is within the range and below the average of the P/NAV Ratios of the Peer Companies; (ii) the Coupon Interest of 3.5% per annum is higher than those of the Comparable Transactions (as defined below), which would generate interest income to the Group; and (iii) the reasons for and benefits of the Disposal as discussed in section (1)(d) previously, in particular, the synergy effect that United Gene may bring to promote the Medicine beyond the PRC to markets in the United States and Europe and the Company is confident with the prospect of the Target Group, we consider that the significant premium of the conversion price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(ii) *Coupon Interest and Maturity*

In assessing the fairness and reasonableness of the Coupon Interest and Maturity, we have attempted to, based on the information available on the website of the Stock Exchange and taking into consideration that it is the current intention of the Company to hold the Convertible Bonds up to Maturity, compare the interest rate and term to maturity of debt securities (including convertible bonds and promissory notes) issued by the Peer Companies as settlement of consideration in relation to acquisition of target companies principally engaged in the manufacturing and sale of pharmaceutical and bio-chemical products conducted in the past five years before the Last Trading Day (the "**Comparable Transactions**"). We have also made references to the issuance of debt securities without conversion feature such as promissory notes as settlement of consideration in relation to acquisition of target companies given that the Convertible Bonds are currently intended to be held to maturity by the Company. During our review of Comparable Transactions, however, there are only two relevant transactions involving the issue of convertible bonds/notes only in the past two years. As such, we have extended our review to transactions completed in the past five years before the Last Trading Day. We are mindful that transactions announced more than two years ago may be of less relevance to the Disposal due to changes in general market conditions. We have, based on the aforesaid criteria, on a best effort basis and to the best of our knowledge, identified 7 Comparable Transactions, which are considered to be full and exhaustive.

Date of announcement	Transaction Companies (stock code)	Nature of debt securities	Connected transaction	Interest rate (p.a.) %	Term to maturity *Years*	Percentage of consideration settled by the convertible bonds/ promissory note %	Premium/ (discount) of the conversion/ subscription price over/(to) the closing price prior to announcement %
26-Nov-13	Hao Wen Holdings Limited (8019)	Convertible note	No	2%	3.0	90%	0.00%
26-Jun-12	China Pharmaceutical Group Limited (1093)	Convertible bond	Yes	0%	5.0	75%	4.88%
1-Dec-11	ZMAY Holdings Limited (8085)	Convertible bond	No	0%	3.0	27%	0.00%
13-Jul-11	China Medical and Bio Science Limited (8120)	Convertible note	No	0%	3.0	31%	–89.58%
27-Dec-10 *(Note)*	Hao Wen Holdings Limited (8019)	Promissory note	No	5%	2.0	17%	N/A
27-Dec-10 *(Note)*	Hao Wen Holdings Limited (8019)	Convertible bond	No	3%	2.0	67%	–16.67%
23-Nov-09	Hua Xia Healthcare Holdings Limited (8143)	Promissory note	Yes	1%	10.0	48%	N/A
	Maximum			5%	10.0	90%	4.88%
	Minimum			0%	2.0	17%	–89.58%
	Average			1.6%	4.0	51%	–20.27%
17-Mar-14	Convertible Bonds of United Gene			3.5%	7	92%	73.61%

Note: These refer to the issuance of both promissory notes and convertible notes as part of settlement of consideration in relation to the same acquisition of a target company by Hao Wen Holdings Limited.

Coupon Interest

The Convertible Bonds shall bear coupon interest of 3.5% per annum. The Company will receive stable coupon interest income amounting to approximately HK$25 million per annum throughout the term of the Convertible Bonds up to the Maturity. As illustrated in the table above, it is noted that the coupon interest of the Comparable Transactions ranges from 0% per annum to 5% per annum with an average of approximately 1.6%. The coupon interest of 3.5% of the Convertible Bonds is therefore within the range and above the average of those of the Comparable Transactions.

Maturity

The Convertible Bonds will be matured on the 7th anniversary of the issue date. As illustrated in the above table that the term to maturity of the Comparable Transactions range from 2 years to 10 years with an average of approximately 4 years. As stated in the announcement of United Gene dated 15 May 2013, United Gene had previously issued convertible bonds with a term to maturity of 10 years in relation to the acquisition of the Shares and convertible bonds of the Company. The Maturity of 7 years of the Convertible Bonds is therefore shorter than the previous issuance and within the range of those of the Comparable Transactions.

Other major terms of the Convertible Bonds

Neither the United Gene nor the bondholder has any right of early redemption of the Convertible Bonds before the Maturity, except that the Convertible Bonds shall be immediately due and repayable by a bondholder giving notice to the United Gene upon occurrence of any event of defaults as set out in the Convertible Bonds. We have also reviewed other major terms of the Convertible Bonds, the details of which are set out in the Letter from the Board, and are not aware of any terms (including the redemption clause) which are exceptional to normal market practice.

Conclusion

Considering the above and that (i) the Consideration is considered to be fair and reasonable as discussed in section (2)(b) previously; (ii) the coupon interest income of the Convertible Bonds given that it is the current intention of the Company to hold the Convertible Bonds upon maturity; and (iii) the time required for commercialisation of a new pharmaceutical product in a new market could be lengthy given the history of clinical trial of the Medicine; and (iv) the reasons for and benefits of the Disposal as discussed in section (1)(d) previously, we concur with the view of the Directors that the terms of the Convertible Bonds (including the Conversion Price) are based on normal commercial terms and are fair and reasonable as a whole.

(d) ***The Purchaser's Undertaking for Capital Commitment for the Commitment Period***

Pursuant to the Disposal Agreement, the Purchaser has undertaken to the Vendor, on a best endeavour basis, that for a period of 3 years from the Completion Date of the Disposal Agreement, the Purchaser, shall solely assume the total future capital and operational expenditures of the Target Company by way of unsecured interest-free shareholder's loans, with an aggregate amount not exceeding HK$600,000,000, for the Target Company's future development of its oral insulin technology in, including but not limited to, the PRC, the United States and Europe. The Purchaser further undertakes and acknowledges that the Group will not be required to contribute capital to the Target Company until the time that the Purchaser has fully paid the Maximum Capital Commitment.

As advised by the Company, United Gene will utilise the Capital Commitment in the amount of HK$600 million on the research, development and commercialisation of the Target Group's oral insulin technology and will include other markets including the United States and Europe in addition to the PRC market. The Directors are satisfied that the Capital Commitment amount of HK$600 million is substantially sufficient for the purpose of carrying out the development project for the Medicine by the United Gene Group for the Commitment Period and believes that United Gene will have resources and expertise in place to develop these markets beyond the PRC for the Medicine. The Purchaser shall not demand any repayment of the Capital Commitment from the Target Company either in full or in part, until the Target Group has registered operation profits and the maximum amount that the Purchaser may request or demand the Target Group for repayment of the Capital Commitment in each year shall not exceed 30% of the net profit of the Target Group. It is anticipated by the Company that the Target Group will further incur expenditures including research and development costs and contingencies for clinical trial in the PRC prior to approval of production of approximately HK$26 million and pre-marketing efforts prior to commercial manufacturing and distribution of approximately HK$7.4 million. According to the Undertaking, the Company has assumed that United Gene Group shall be responsible for such unpaid research and development cost and pre-marketing expenses of approximately HK$33.4 million and the Group will not be required to contribute any capital for the above.

In view of the foregoing, we consider that the Undertaking would offload the financial burden on the development of the Medicine by the Group and allow the Group to allocate its resources on developing its other core business including the marketing and distribution of and manufacturing of pharmaceutical products in the PRC, and thus is beneficial to the Group.

Pursuant to the terms of the Disposal Agreement, the Company is not obligated to contribute any funding for a period of 3 years from the Completion Date of the Disposal Agreement even if the Purchaser fails to contribute the Capital Commitment. In the event that the Purchaser fails to contribute the Capital Commitment during the 3 years' period, as advised by the Company, it will assess whether United Gene Group has exercised its best endeavour to contribute the Capital Commitment and whether United Gene Group has breached its undertakings under the Disposal Agreement and will seek legal advice for appropriate action. We are of the view that such measure in place could protect the Company from further funding contribution.

As disclosed in the interim report of United Gene for the six months ended 31 December 2013, it had bank and cash balances of approximately HK$203 million as of 31 December 2013, out of which the Purchaser is required to pay HK$65 million in cash as part of the Consideration to the Vendor upon Completion. According to United Gene, in the event that despite exercising its best endeavour, the Purchaser is unable to obtain sufficient funding to pay the Capital Commitment in full when needed, it would switch to the original development plan and timetable of the Company and finance the necessary expenditure of the PRC research and development cost by its own internal resources. As compared to the development plan of United Gene, the commercialisation of the Medicine in the PRC will be delayed to the original

timetable of the Company and, the United States and Europe markets will be delayed or obstructed, in which case, the financial condition and results of the operations of the Target Group will be adversely affected. The then financial condition and results of the operations of the Target Group will in turn adversely affect the financial condition and results of operations of the Group given that the Group will consolidate the profit or loss of the Target Group as an associate by equity method. However, when compared with the original plan of the Company, there will not be material adverse impact on the development of the Medicine of the PRC and the Target Group. Taking into account the above and that United Gene Group will still be responsible for such unpaid research and development cost and pre-marketing expenses of approximately HK$33.4 million, save for the financial effect on disposal of 51% interest in the Target Company including (i) the Company will cease to exercise control over the Target Group as a subsidiary and will account the Target Group as an associate and (ii) the financial results of the Target Group will only be accounted for by using equity method under the Hong Kong Financial Reporting Standards, in return for the Consideration, there will not be any material adverse impact on the financial position and results of operations of the Company in this regard.

(e) ***Conclusion***

Based on the foregoing, in particular, that (i) the Consideration is considered to be fair and reasonable as discussed in section (2)(b) previously; (ii) the terms of the Convertible Bonds are considered to be fair and reasonable as discussed in section (2)(c) previously; and (iii) the reasons for and benefits of the Disposal as discussed in section (1)(d) previously we are of the opinion that the terms of the Disposal Agreement are fair and reasonable in this regard.

3. Possible financial effects of the Disposal on the Group

(a) ***Earnings and net asset value***

The Target Company is currently a wholly owned subsidiary of the Group. Upon Completion, the Target Company will cease to be a subsidiary of the Company and will be regarded as an associate of the Company. Accordingly, the interests of the Company in the Target Group will only be accounted for by using equity method under the Hong Kong Financial Reporting Standards.

Upon Completion, the Group would recognise a gain on Disposal of approximately HK$408 million which is currently estimated with reference to (i) the Consideration of HK$780 million; (ii) the fair value of the remaining 49% equity interest in the Target Company as retained by the Group of approximately HK$360 million; (iii) the premium (being the excess of investment costs over the Group's share of 49% of the fair value of non-controlling interest in the consolidated net asset value of Smart Ascent upon completion of acquisition in July 2013) as recorded in equity attributable to equity holders of the Company of approximately HK$598 million de-recognised as a result of the Disposal; (iv) the consolidated net assets value of the 51% shareholding interest in the Target Company of

approximately HK$132 million attributable to the Group as at 30 September 2013; and (v) the estimated direct costs relating to the Disposal. It is noted that the gain on disposal of approximately HK$408 million would increase the total equity of the Company. Given that the Target Group was loss making in the previous years and the commercialisation of the Medicine is expected to be in the second half of 2015 under the timetable proposed by United Gene, after which the Group will enjoy the economic benefit through its share of the 49% interests in the Target Company, together with the substantial gain on disposal of approximately HK$408 million, we concur with the Company that the Disposal will have a positive contribution to the net assets and profitability of the Group which in turn will enhance the Shareholder's value.

(b) ***Cash flows***

As discussed in section (2)(a) previously, the Consideration will be satisfied by the Purchaser to the Vendor by cash payment of HK$65,000,000 and the issue of the Convertible Bonds at the principal amount of HK$715 million whereby the cash payment will increase the cash and cash equivalents. In addition, it is the Company's current intention to retain the Convertible Bonds until Maturity and receive coupon interest income of approximately HK$25 million per year from the Convertible Bonds until the 7th anniversary from the issue date.

Pursuant to the terms of the Disposal Agreement, the Purchaser has undertaken to the Vendor that for a period of 3 years from the Completion Date, the Purchaser shall, on a best endeavour basis, solely assume the total future capital and operational expenditures of the Target Company up to the Maximum Capital Commitment and the Vendor will not be required to contribute capital to the Target Company until the time that the Purchaser has fully paid the Maximum Capital Commitment. We concur with the Company's view that the Undertakings would relieve the Group from the financial burden for the development of the Target Group in short to medium term and, together with the cash consideration and the coupon interest income, will improve the overall cash flow of the Group and thereby enhance the capital resources it may deploy for the development of its other existing pharmaceutical business.

In view of the foregoing, we consider that the Disposal will enhance the working capital position of the Group.

(c) ***Gearing***

Based on the restated consolidated financial position of the Company for the six months ended 30 September 2013, the gearing ratio (defined as total debt (including convertible bonds) divided by total equity) of the Group was about 36% as at 30 September 2013. As discussed in section (2)(a) previously, approximately HK$408 million gain on disposal is expected to be recognised upon Completion, which will increase the total equity of the Group. Given that, as advised by the Company, the loan and amounts due to non-controlling interests of the Target Group of approximately HK$48.3 million as at 30 September 2013 will no

longer be consolidated to the financial statements of the Group upon Completion, the total debts of the Group will reduce and thus we concur with the Company's view that the gearing ratio of the Group will improve upon Completion.

RECOMMENDATION

Having taken into account the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the reasons for and benefits of the Disposal as discussed in section (1)(d) previously;
- that the Disposal will allow the Group to fully recover its previous acquisition cost in 100% interest in the Target Company and meanwhile, retain 49% interest in the Target Company upon Completion;
- that the Consideration is fair and reasonable having considered, among others, the Valuation and the previous acquisition cost in 100% interest in the Target Company;
- that the terms of the Convertible Bonds are fair and reasonable as discussed in section (2)(c) previously; and
- the favourable impact on the financial position of the Group as a result of the Disposal as discussed in section (3) previously,

we are of the opinion that, although the Disposal is not in the ordinary and usual course of business of the Group, the Disposal is in the interests of the Company and the Shareholders as a whole and the terms of the Disposal Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal, Disposal Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Deputy Chief Executive

Mr. Gary Mui is a licensed person and a responsible officer of Quam Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in finance and investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

The accountants' reports, together with the audited financial information of the Group for the three years ended 31 March 2011, 2012 and 2013 have been disclosed in the annual reports of the Company for each of the three years ended 31 March 2011, 2012 and 2013 respectively. The aforementioned annual reports have been published on both the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.extrawell.com.hk as follows:

(A) in respect of the annual report of the Company for the year ended 31 March 2011 (pages 29 to 85):

http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0721/LTN20110721093.pdf

http://www.extrawell.com.hk/catalog/pdf/AR2011_E.pdf

(B) in respect of the annual report of the Company for the year ended 31 March 2012 (pages 30 to 85):

http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0720/LTN20120720091.pdf

http://www.extrawell.com.hk/catalog/pdf/AR2012_E.pdf

(C) in respect of the annual report of the Company for the year ended 31 March 2013 (pages 34 to 95);

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0718/LTN20130718172.pdf

http://www.extrawell.com.hk/catalog/pdf/LTN20130718172_E.pdf

2. INDEBTEDNESS

Borrowings and other indebtedness

As at the close of business on 30 April 2014, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group's total borrowings were about HK$41,600,000, comprising amounts due to non-controlling interests of subsidiaries of about HK$28,550,000, amounts due to former non-controlling interests of subsidiaries of about HK$2,500,000, and loan from a non-controlling interest of a subsidiary of about HK$10,550,000.

As at the close of business on 30 April 2014, the Group did not have bank borrowings but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$19,800,000 and corporate guarantees from the Company and certain subsidiaries of the Company.

Contingent liabilities

On 16 July 2013, the Company issued zero coupon convertible bonds with an aggregate principal amount of HK$641,300,000 (the "**2013 Convertible Bonds**"). The 2013 Convertible Bonds are convertible at the option of their holders into ordinary shares of the Company at the initial conversion price of HK$0.6413 per share on or before the seventh business day prior to the maturity date of 16 July 2033. As at 30 April 2014, the outstanding principal amount of the 2013 Convertible Bonds was HK$577,170,000.

As at 30 April 2014, corporate guarantees totaling HK$18,000,000 were given by the Group to a bank in connection with banking facilities to a maximum amount of HK$18,000,000 provided to certain subsidiaries of the Company, and approximately HK$6,170,000 of the banking facilities had been utilized.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 April 2014, the Group had no other outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

To the best knowledge of the Directors having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Group since 30 April 2014 and up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors, after taking into account the present internal financial resources available to the Group including internally generated cash flows and the existing banking and credit facilities available and the estimated net proceeds from the Disposal, are of the opinion that the Group has sufficient working capital for its present requirements in the next 12 months from the date of publication of this circular in the absence of unforeseen material circumstances.

4. FINANCIAL AND TRADING PROSPECTS

As a long-term development strategy, the Group strives to develop quality pharmaceutical products through its own research and development, and exploit potential products from overseas which are complementary to the Group's product portfolio through collaborative relations with international pharmas, with a view to capturing the growing market demand in the PRC and maintaining steady cash flows for the Group to grasp new investment opportunities should they arise.

Imported Pharmaceutical Sector

Marketing and distribution of imported pharmaceuticals contributed a major part to the revenue of the Group. The major products in the market are focusing on central nervous system, antihypertensive and dermatology. The Group provides one-stop services from product registration to sales and marketing of pharmaceuticals in the PRC and collaborates with pharmaceutical manufacturers who are keen to develop sales in the PRC market.

Manufactured Pharmaceutical Sector

The Group currently runs two manufacturing operations in Changchun, Jilin Province. A new production plant with more advanced facilities, of a site area of approximately 55,000 square meters, has been set up in Jiu Tai, Changchun, and is pending for GMP certification. The major products manufactured are mainly in immunological, cerebro-cardio vascular, anemia, and dermatological categories.

Meanwhile, the Group has been deploying resources in advancing its manufacturing capabilities and expects to consolidate its manufacturing operations in the PRC so as to achieve economies of scale and enhance its core competitiveness in the long run.

Gene Development Sector

Gene development is not active and has not contributed to the revenue of the Group.

Oral Insulin Sector

The clinical trial relating to the Medicine is still in progress and no revenue has been generated. As mentioned in previous sections, the Group expects the successful commercialization of the Medicine would bring economic benefits to the Group.

Assuming the Disposal be completed, the Group will still hold 49% equity interest in Smart Ascent, thus enabling it to enjoy any benefit from the future growth and success of Smart Ascent with input of resources by the 51% equity holder as a new partner who may promote the Medicine beyond the PRC to markets in the United States and Europe. The cash payment of the Consideration generated from the Disposal and the interest payments generated from the Convertible Bonds can also enhance the resources it may deploy to the Group's other existing pharmaceutical businesses to improve their performances and to seize profitable investment opportunities, thus fostering a long-term growth and development of the Group.

The following is the text of the valuation report dated 27 June 2014 from Castores Magi Asia Limited, an independent professional valuer, in respect of its valuation on the business of the Smart Ascent Group as at 28 February 2014, prepared for the purpose of incorporation in this circular.

嘉漫亞洲有限公司
CASTORES MAGI ASIA LIMITED
BUSINESS AND INTANGIBLE ASSET APPRAISAL
INVESTMENT PROJECT ADVISORY SERVICES

CASTORES
MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

27 June 2014

The Directors
Extrawell Pharmaceutical Holdings Limited
Suites 2206–08,
22nd Floor, Devon House,
Taikoo Place,
979 King's Road,
Quarry Bay,
Hong Kong.

Dear Sirs,

In accordance with the instructions of Extrawell Pharmaceutical Holdings Limited (hereinafter known as the "**Company**"), we have made an appraisal of the Market Value of a 100% equity interest of Smart Ascent Limited (hereinafter known as "**Smart Ascent**") and its subsidiaries (altogether hereinafter known as "**Smart Ascent Group**"), as at 28 February 2014 (hereinafter known as the "**Valuation Date**").

The purpose of this appraisal is to formulate and express an independent opinion on the Market Value of the equity interest of Smart Ascent as at the Valuation Date on the premise of going concern. The term "Market Value" as used herein is defined as "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for associated taxes or potential taxes. We understand that the use of our work

product will not supplant other due diligence, which you should conduct in reaching business decisions for Smart Ascent. Our work is designed solely for public disclosure purposes. There are no other purposes intended or should be inferred.

INTRODUCTION

Smart Ascent was incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of the Company, a company listed on The Stock Exchange of Hong Kong Limited. As at the Valuation Date, Smart Ascent possesses 51% equity interest of Fosse Bio-Engineering Development Limited (hereinafter known as "**Fosse Bio**") and 51% equity interest of Welly Surplus Development Limited (hereinafter known as "**Welly Surplus**") and 100% equity interest of Nation Joy Industries Limited (hereinafter known as "**Nation Joy**"). Smart Ascent Group principally engages in the development and commercialization of Oral Insulin Enteric-Coated Soft Capsule (hereinafter known as "**Oral Insulin**").

Fosse Bio has collaborations with Tsinghua University for the research and development of the use of Oral Insulin, and shall have the exclusive right to commercialize the technologies relating to the use of Oral Insulin, manufacture and sell it on exclusive basis. On the other hand, Welly Surplus will serve as a manufacturing and distribution arm of Smart Ascent in the manufacturing and distribution of Oral Insulin. Nation Joy is set up as an investment holding company.

Diabetes is disease in which the body does not produce or properly use insulin, which causes high levels of glucose in the blood. There are two types of Diabetes: Type 1 diabetes — human body suffering insulin deficiency (little or no insulin); Type 2 diabetes — human body suffering insulin resistance (cells cannot use the insulin well). Insulin has been commercially available for the treatment of diabetes but normally in the injection forms since introduction.

Fosse Bio has had collaborations with Tsinghua University for the research and development of the use of Oral Insulin since October, 1998. Oral Insulin, an innovative oral insulin, developed by Smart Ascent Group and Tsinghua University, have entered into Phase I/II clinical trials under the China Food and Drug Administration (hereinafter known as "**CFDA**") and the relevant technologies have been applied for the registration of patent. As at the Valuation Date, Phases I and II clinical trials have already been completed. As advised by Smart Ascent Group, further clinical trial of Oral Insulin in Phase III protocol comprises Parts A and B (both are double-blinded and placebo-controlled) of which Part A, which has been completed, involves the adoption of Oral Insulin placebo and Part B involves the Oral Insulin placebo and insulin injection placebo.

Fosse Bio has engaged a Clinical Research Organization (hereinafter known as "**CRO**"), known as XinTaigoler Medical Technology Co. Ltd (瀋陽鑫泰格爾醫藥科技開發有限公司) in the People's Republic of China (hereinafter known as the "**PRC**"), to organize Phase III clinical trials. Generally speaking, CRO is an organization that provides support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis. A CRO may provide such services as biopharmaceutical development, biologic assay development, commercialization, preclinical research, clinical research, clinical trials management,

and pharmacovigilance. Many CROs specifically provide clinical-study and clinical-trial support for drugs and/or medical devices. CROs that specialize in clinical-trials services can offer their clients the expertise of moving a new drug or device from its conception to CFDA marketing approval.

As advised by Smart Ascent Group, CRO has co-operated with five hospitals, namely, Peking University People's Hospital (北京大學人民醫院), The First Hospital of China Medical University (中國醫科大學附屬第一醫院), Shengjing Hospital of China Medical University (中國醫科大學附屬盛京醫院), The Second Hospital of Jilin University (吉林大學第二醫院) and The Second Affiliated Hospital of Harbin Medical University (哈爾濱醫科大學附屬第二醫院), to undertake Part B clinical trial. CRO will look for three to four more hospitals to undertake the said trial to be led by Peking University People's Hospital (北京大學人民醫院) in foreseeable future.

The potential benefits of Oral Insulin therapy comparing with the traditional injection methods are pain-free, needle-free and it is a non-invasive drug delivery. In accordance with the market research and market estimate carried out by Fosse Bio, in 2016, there will be over 98 million diabetes patients in the PRC and it is expected that the use of Oral Insulin will become an alternative of injection insulin therapy in the treatment of diabetes.

As advised by Smart Ascent Group, upon passing through further clinical trial successfully and obtaining the relevant production approval, the drugs production will commence by the end of 2016.

MARKET OVERVIEW

The PRC has a high rate of diabetes of 9.62% and the largest diabetic population — of more than 98 million in 2013. Along with economic growth and a new lifestyle featuring a rich diet and less exercise, the number of diabetics will continue to rise.

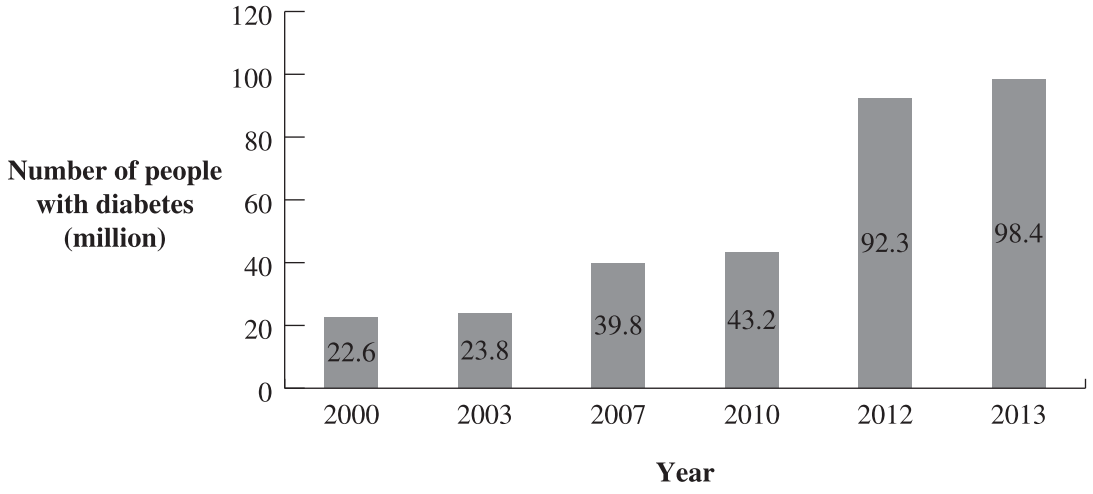
Some 382 million people worldwide, or 8.3% of adults, are estimated to have diabetes, which causes almost 5.1 million people aged between 20 and 79 died from diabetes in 2013, according to the International Diabetes Federation (hereinafter known as "**IDF**"). In the United States (hereinafter known as the "**US**"), about 11 out of 100 people are diabetic. But in the PRC, awareness about the disease is low, with 60 percent of patients undiagnosed. Almost half the patients in the latest study did not know of their condition. Also, another 493 million in the PRC are considered pre-diabetic — who display early symptoms of diabetes that can lead to cardiovascular disease, the leading cause of death.

Currently, cases are largely detected in screenings at hospitals, when most are already showing serious symptoms. People who are above 40, overweight, or in well-off urban areas where western fast food chains are common, face a particularly high risk. Overweight children are also prone to the disease. In Beijing, nearly 20% of elementary and middle school students are overweight, according to a health report issued by the municipal government in 2010. A survey conducted by the Chinese Association for Student Nutrition and Health Promotion showed nearly 30% of urban

children aged between 6 and 17 eat at fast food restaurants at least once a week. Frequent consumption of high-fat food like hamburgers, fried chicken and colas leads to child obesity and other health risks including diabetes.

The PRC has almost four times as many people with diabetes than the US, where there are 24.4 million sufferers, according to the IDF. By 2035, 44 million more will have the condition in the PRC, where diabetes causes about US$38 billion a year in medical costs. In retrospect, the average growth rate of diabetics in the PRC was 15.16% as from 2000 to 2013 whilst the annual growth rate from 2010 to 2012 was surprisingly high. The popularity of diabetes screenings might be the main reason contributing to such rocketing recent growth rate.

Number of people with diabetes in China



Source: IDF

Pursuant to an article — "China Diabetes Triples Creating $3.2 Billion Drug Market" by *Bloomberg* dated 5 November 2012, a Shanghai-based consultant with IMS Health Inc., which is an international medical statistics company, estimated that the PRC's diabetes drugs market will expand 20% annually to reach RMB20 billion by 2016, spurred by guidelines that set higher treatment standards. The PRC's pharmaceuticals market overall will increase 15%–18% a year to reach as much as US$165 billion over the same period.

According to IDF, a key difference is that an average of US$333 a year was spent treating each diabetes patient in the PRC, versus more than US$9,800 in developed countries such as the US in 2013. Even as the PRC's health spending is forecast to almost triple to US$1 trillion over the next eight years, surging rates of diabetes mean the PRC is struggling to detect cases and provide basic care.

Prevalence of Type 2 diabetes, a disease linked to inactivity and excess calories, has more than tripled in the PRC over the past decade, fueling 20 percent-a-year growth in drug sales and straining health services. The older drugs on one hand can raise insulin levels, on the other hand, can cause hypoglycemia. Using the medical term for low-blood sugar that sometimes causes

patients to become delirious and to pick fights. It impairs brain function and there's no way to stop it until we get the blood sugar back to normal. It's also stoking need for newer, costlier medications from Merck & Co., Novo Nordisk A/S and Sanofi that help avoid blood-sugar spikes and complications such as heart attack and stroke. However, as most people would prefer a pill to an injection, the potential market for an oral form of insulin is assumed to be enormous.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the equity interest of Smart Ascent on the basis of "Market Value" on the premise of going concern. The going concern premise assumes that Smart Ascent Group is normally viewed as continuing in operation in the foreseeable future with neither the intention nor necessity of liquidation or of curtailing materially the scale of its operation basis. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the equity interest of Smart Ascent appraised than he could reasonably expect to earn in the future from an investment in the equity interest of Smart Ascent.

The valuation of the equity interest of Smart Ascent requires consideration of all pertinent factors affecting the operations of the business and its ability to generate future investment returns. The factors considered in the appraisal including, but were not limited to, the following factors:

— the history of Smart Ascent Group;

— the economic and industry outlooks affecting Smart Ascent Group's business;

— the size and growth prospects of the Oral Insulin market in the PRC;

— the past and projected future results of Smart Ascent Group and the bases and assumptions for such results;

— the net assets and financial position of Smart Ascent Group;

— the market-derived investment returns of entities in similar line of business;

— the stage of development, timing of introduction and marketing methods for the Oral Insulin project; and

— the risks facing by Smart Ascent Group in implementing the Oral Insulin project.

The projected future results have been supplied to us by the Company. We have discussed the bases and assumptions for such results with the Directors of Smart Ascent Group and the Company. We consider such bases and assumptions are fair, reasonable and complete and have been made by the Company, whose responsibility they are, after due and careful enquiry.

In view of the ever-changing business environment in which Smart Ascent Group is operating, we have made a number of reasonable assumptions in the course of our appraisal, which are set out as follows:

— Smart Ascent Group will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;

— Fosse Bio will have no obstacle to obtain production approval of Oral Insulin from the CFDA after completion of the further stage of clinical trial, which is expected to take approximately 3 years;

— the financial forecasts of Smart Ascent Group are achievable;

— there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which Smart Ascent Group currently runs or intends to run its business which will materially affect its operation;

— there will be no substantial market fluctuation in the industry in the jurisdictions or states in which Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

— there will be no substantial fluctuation in current tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which Smart Ascent Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;

— the management of Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of Smart Ascent Group's business; and

— the assumptions on which the financial forecasts of Smart Ascent Group will be achievable. The principal assumptions are:

  - the estimated diabetic population of the PRC in 2016 will be 98 million and is expected to grow at 0.5 million per annum after 2016;

- the following factors considered in the financial forecast:

	For the financial year ending 31 March				
	2017	**2018**	**2019**	**2020**	**2021**
Number of capsules (50 IU) ('000)	522,680	1,165,810	1,511,830	2,027,210	2,610,480
Unit Price (RMB)	2.75	2.75	2.75	2.75	2.75
Revenue (RMB'000)	1,437,370	3,205,978	4,157,533	5,574,828	7,178,820
Growth Rate of Revenue		123.04%	29.68%	34.09%	28.77%

Note: For details, please refer to APPENDIX II (A)

- operating expenses, including staff costs, administrative and marketing expenses, property related expenses, are estimated by Smart Ascent's management with reference to the scale of operations; and

- necessary capital expenditure will be funded out of internal cash flows, plus external funding if required, and has been included in the projections as a cash outflow.

In the process of valuing the equity interest of Smart Ascent, we considered the classical appraisal approaches to value, namely the Market Approach, Cost Approach and Income Approach. The Market Approach is basically a comparison method which estimates market value from analyzing sales and financial data and ratios of comparable public and, whenever possible, private companies. To the best of our understanding, there are no public sale and purchase of similar business transactions that completed in Hong Kong and the PRC. Under such circumstances, we have not relied on the Market Approach in our estimate of the Market Value of the equity interest of Smart Ascent due to insufficient supporting data.

The Cost Approach seeks to estimate the Market Value of a company by quantifying the amount of money that would be required to replace the manufacturing capabilities of the firm. In other words, this approach assumes that Smart Ascent Group's value is indicated by the cost of reproducing or replacing its manufacturing assets less an allowance for physical deterioration and obsolescence. We considered this approach is not an appropriate approach for valuing Smart Ascent Group given that the future business growth of Smart Ascent Group will be neglected.

The Income Approach focuses on the income-producing capability of a company. This approach's underlying theory is that the value of Smart Ascent Group can be measured by the present worth of the net economic benefit to be received. In our opinion, this approach is the most appropriate in valuing the equity interest of Smart Ascent since a rational buyer normally will purchase a company only if the present value of the expected economic benefits is at least equal to

the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the economic benefits of ownership. Based on this valuation principle, we use the Income Approach to estimate the future economic benefits of Smart Ascent Group and discount these benefits to its present value using a discount rate that is appropriate for the expected risks associated with realizing those benefits.

VALUATION METHODOLOGY

In choosing the Income Approach as the most appropriate approach, we have used the Discounted Cash Flow (hereinafter known as "**DCF**") Method, which estimates the Market Value of the equity interest of Smart Ascent by discounting the future cash flows to its present value. This would necessitate the subtraction, from the net income, the capital expenditures and changes in working capital and the addition of depreciation and amortization in the computation of cash flow. DCF analysis reflects investment criteria and requires the appraiser to make empirical and subjective assumptions.

In using the DCF Method, we adopted the Free Cash Flows to Equity (hereinafter known as "**FCFE**") Technique in view of Smart Ascent's only supplier of capital is equity holders. The FCFE Technique values the enterprise by estimating the Market Value of the ownership interests (equity) of the enterprise. This technique requires that Smart Ascent's interest expenses, if any, be excluded from the free cash flows and the resulting cash flow to be discounted at the relevant rate of return required by equity. This technique then equates the value of the ownership interests as the value of the enterprise.

The formula of FCFE is set out as follows:

Free Cash Flows to Equity = Net Income + Depreciation and Amortization – Capital Expenditures – Non-Cash Working Capital Change – Principal Repayments + Proceeds from New Debt Issues

Key: *Net Income = Revenue – Operating Expenses – Tax*

Depreciation and Amortization: non-cash charges

Non-Cash Working Capital = Current Assets (without cash) – Current Liabilities

Principal Repayments & Proceeds from New Debt Issues: only for levered firm which finances some of its capital expenditures and working capital needs with debt

We derived the discount rate by using the Capital Asset Pricing Model (hereinafter known as "**CAPM**"). The CAPM derives the required rate of return of an asset by adding the risk-free rate to the risk premium of the asset. The CAPM is built on the premise that the variance in returns is the appropriate measure of risk but only that portion of the variance of the returns of an asset that is not reduced by diversification has to be compensated, therefore the appropriate return required of

an asset is determined by the volatility of the asset's returns relative to the returns that can be achieved by a broad market portfolio. This measured non-diversifiable risk is represented by the beta of the asset and the risk premium of the asset is its beta multiplied to the risk premium of a broad market portfolio.

The formula of CAPM is set out as follows:

Cost of Equity = Risk-free Rate + Equity Beta × (Expected Market Return – Risk-free Rate)

In estimating the equity return in the pharmaceutical industry relating to diabetes, we have referred to 7 listed companies in the PRC and the US. These companies, however, might not solely or primarily derive revenues from the selling drugs for diabetes. It is our opinion that the annualized equity return of these listed companies represents the most reliable objective market rate of return to be used in valuing your Smart Ascent's equity, since it captures investors' expectations, prevailing market conditions and the accompanying risks associated with them.

In valuing the equity interest of Smart Ascent, we determined the unlevered Ordinary Least Squares (OLS) beta by deriving a representative industry beta from the guideline companies that approximate Smart Ascent Group's business as mentioned above. An unlevered beta is the beta a company would have if it had no debt. It removes a company's financial decision from the beta calculation and reflects a company's business risks. The OLS betas are estimated by the traditional method of running a simple regression in which excess monthly returns on a company or composite is the dependent variable and the excess return on the market is the independent variable. Apart from Tonghua Dongbao Pharmaceutical Co. Ltd. (Stock Code: 600867, SH), which is a listed company in the PRC, six listed companies in the US, namely, Novo Nordisk A/S (Ticker: NVO, US), Bristol-Myers Squibb Company (Ticker: BMY, US), AstraZeneca PLC (Ticker: AZN, US), Sanofi (Ticker: SNY, US), Eli Lilly and Company (Ticker: LLY, US) and Merck & Co. Inc. (Ticker: MRK, US) have been selected as the guideline companies in our valuation. In accordance with an article — "New Diabetes Drugs Moving Through the Pipeline" from *Genetic Engineering & Biotechnology News* dated 11th November, 2013, these listed companies in the US are developing new diabetes drugs at present.

The principal activities and market capitalization of the guideline companies as at 28 February 2014 are tabulated as follows:

Guideline Company	Market Capitalization *(US$Million)*	Principal Activities
Tonghua Dongbao Pharmaceutical Co. Ltd.	1,978.14	It manufactures and markets western medicines (including gene-recombinant insulin lyophilized powders and injections), Chinese medicines and biological products.
Novo Nordisk A/S	126,738.75	It engages in the discovery, development, manufacture, and marketing of pharmaceutical products primarily in Denmark. It operates in two segments, Diabetes Care and Biopharmaceuticals. The Diabetes Care segment covers insulins, GLP-1 analog, obesity, and oral antidiabetic drugs, as well as other protein related products comprising glucagon, protein related delivery systems, and needles.
Bristol-Myers Squibb Company	89,580.82	It discovers, develops, licenses, manufactures, markets, distributes, and sells biopharmaceutical products worldwide. It co-operates with its partner, AstraZeneca PLC, in developing *Forxiga* which is a once-daily oral medication for adults with Type 2 diabetes.
AstraZeneca PLC	84,971.04	It is engaged in the discovery, development, and commercialization of medicines. It cooperates with its partner, Bristol-Myers Squibb Company, in developing *Forxiga* which is a once-daily oral medication for adults with Type 2 diabetes.

Guideline Company	Market Capitalization *(US$Million)*	Principal Activities
Sanofi	69,418.94	It researches, develops, manufactures, and markets healthcare products. *U300*, an insulin glargine, is now undergoing Phase 3 clinical trial in the US. It also licensed *LixiLan* (lixisenatide + insulin glargine) and Lyxumia (lixisenatide) from Zealand Pharma A/S.
Eli Lilly and Company	64,664.93	It discovers, develops, manufactures, and sells pharmaceutical products worldwide. It is now recruiting patients for Phase 3 clinical trial for *LY2605541*,which is a basal insulin analog.
Merck & Co. Inc.	170,742.04	It provides various health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products worldwide. It is now recruiting patients for Phase 3 clinical trial for *Omarigliptin* which is a DPP-4 inhibitor. It also licensed *Ertugliflosin*, a SGL T2 inhibitor, from Pfizer.

The computation of annualized equity return and beta are set out as follows:

Guideline Company	Ticker	Unlevered Beta	Equity Return (%)
Tonghua Dongbao Pharmaceutical Co. Ltd.	600867, SH	0.42	5.05
Novo Nordisk A/S	NVO, US	1.01	64.63
Bristol-Myers Squibb Company	BMY, US	0.76	19.50
AstraZeneca PLC	AZN, US	0.49	30.24
Sanofi	SNY, US	0.83	9.59
Eli Lilly and Company	LLY, US	0.62	41.19
Merck & Co. Inc.	MRK, US	0.23	21.47
	Median:	**0.62**	**21.47**

Note: The guideline companies tabulated above represent the pharmaceutical enterprises which are currently researching and/or producing diabetic drugs in accordance with their annual reports and an article from Genetic Engineering & Biotechnology News ("**GEN**") dated 11th November, 2013. GEN has retained its position as the number one biotech publisher around the globe since its launch in 1981. GEN publishes a print edition 21 times a year and has additional exclusive editorial content online, like news and analysis as well as blogs, podcasts, webinars, polls, videos, and application notes. GEN's unique news and technology focus includes the entire bioproduct life cycle from early-stage R&D, to applied research including omics, biomarkers, as well as diagnostics, to bioprocessing and commercialization. GEN annually updates the list of drug candidates for which diabetes or complications from diabetes is at least one proposed or approved indication, and for which an indication has reached Phase III registration phases and/or approval or rejection of application. We note that there are some other companies (many of them are non-listed companies) running similar business or undertaking the relevant clinical trials. However, in view of the information available to us is limited and cannot be verified, we are unable to consider these companies in our valuation. In these circumstances, the aforesaid guideline companies represent an exhaustive list from valuation point of view.

The equity risk premium of Smart Ascent is reached by multiplying the beta to the difference between the annualized equity return of the representative industry and the risk-free rate, which is the yield of 15 years' Hong Kong Exchange Fund Notes. The cost of equity is thus derived by the summation of the risk-free rate and the equity risk premium.

In addition to the annualized equity return, to derive the required cost of equity in our valuation, we have added the country risk for the PRC in which Smart Ascent Group operates. The majority of the guideline companies mentioned above are based and listed in the US, which has a longer history of diabetes drug development and a more developed and liquid capital market than the PRC, thus it has the necessity to add the relevant country risk premiums to the compound annual equity return.

The discount rate adopted in this valuation is 18.2%, which is generated by applying the risk-free rate of 2.44%, beta of 0.62, risk premium of 19.03%, country risk of 2% and investment specific risk of 2%. On the other hand, no long-term growth rate is considered in our valuation after the forecast period. The investment specific risk of 2% and country risk of 2% were based on the industry norm and our professional judgment without referring to any research or studies.

By definition, the ownership interests in closely held companies are typically not readily marketable, and by definition not as liquid and as easily converted to cash compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Numerous studies have been made showing that the Lack of Marketability (hereinafter known as "**LOM**") discount for a closely held stocks compared with a publicly traded counterpart averages between 10% and 50%, and many different researchers have obtained these averages over a wide span of years. We have opted to apply a 35% LOM discount to the value of Smart Ascent pursuant to "A Companion Guide to the FMV Restricted Stock Study" (2013 Edition) prepared by FMV Opinions, Inc. and based on our professional judgment.

General Comments

For the purpose of this appraisal and in arriving at our opinion of value, we have relied to a very considerable extent on the information, statements, opinion and representations provided to us by Smart Ascent Group and the Company. We were furnished with the basic information of Oral Insulin and the relevant technologies, a collaboration agreement between Smart Ascent Group and Tsinghua University, a feasibility study report, financial projections of Smart Ascent Group for a period of eight years ending 31st March, 2021 and relevant publicly available information. These data have been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of Smart Ascent Group.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, neither guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

We are unable to accept any responsibilities for the operation and financial information that have not been supplied to us by Smart Ascent Group and the Company. We have had no reason to doubt the authenticity and accuracy of the information provided or the reasonableness of the opinions expressed by Smart Ascent Group, the Company and their directors, which have been provided to us. We also sought and received confirmation that no material factors have been omitted from the information provided.

In the course of our valuation, we relied on Smart Ascent Group's financial projections during the 8 years' forecast period. We have tested this estimate against relevant data pertaining to the various economies and the replication industry, and find it is fair and reasonable.

In arriving at our opinion, we have assumed that Smart Ascent Group has adopted necessary security measures and has considered several contingency plans to protect and maintain the reliability of its business.

We have assumed that the appraised equity of Smart Ascent Group is freely disposable and transferable for its existing or alternative uses in the open market disregarding any further tax, fee and charges payable to the government upon disposal.

In the course of our valuation, we have adopted the basis of valuation and made the valuation assumptions in accordance with the International Valuation Standards 2011 published by The International Valuation Standards Council and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

We have made no investigation of the legal title or any liabilities attached to Smart Ascent Group. All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to Smart Ascent

Group. We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the legal documents, therefore, cannot be accepted. Besides, we are not in a position to advise and comment on the title and encumbrances to Smart Ascent Group.

No allowance has been made in our valuation for any charges or amounts owing neither on Smart Ascent Group nor for any expenses or taxation, which may be incurred in effecting a sale. It is assumed that Smart Ascent Group will be rendered free from encumbrances, restrictions and outgoings of any onerous nature, which could affect its value.

Unless otherwise stated, the base currency of this report is Hong Kong Dollar.

Opinion of Value

Based on the analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as at the Valuation Date, the Market Value of Smart Ascent Group (100% equity interest of Smart Ascent, which owns as to 51% equity interest of Fosse Bio and 51% equity interest of Welly Surplus and 100% equity interest of Nation Joy) is reasonably stated by the amount of **HK$1,938,000,000 (HONG KONG DOLLARS ONE BILLION NINE HUNDRED AND THIRTY-EIGHT MILLION ONLY).**

A sensitivity analysis has been made on the assumption that the discount rate has a fluctuation of ± 1% and 2%, the product price has a fluctuation of ± 5% and 10%, the cost of sales has a fluctuation of ± 5% and 10%, the production will be postponed up to 5 years and the diabetic population have a fluctuation up to ± 10 million. The results of the sensitivity analysis are set out as follows:

Discount Rate	**Valuation Result** *(HK$'000)*	**Difference** *(HK$'000)*
20.20%	1,634,000	(304,000)
19.20%	1,777,000	(161,000)
18.20%	***1,938,000***	**—**
17.20%	2,121,000	183,000
16.20%	2,330,000	392,000

Product Price	**Valuation Result** *(HK$'000)*	**Difference** *(HK$'000)*
–10%	1,098,000	(840,000)
–5%	1,518,000	(420,000)
0%	***1,938,000***	**—**
5%	2,359,000	421,000
10%	2,779,000	841,000

Cost of Sales	**Valuation Result** *(HK$'000)*	**Difference** *(HK$'000)*
–10%	2,320,000	382,000
–5%	2,129,000	191,000
0%	***1,938,000***	**—**
5%	1,747,000	(191,000)
10%	1,556,000	(382,000)

Postponement	**Valuation Result** *(HK$'000)*	**Difference** *(HK$'000)*
0 Year	***1,938,000***	—
1 Year	1,640,000	(298,000)
2 Years	1,387,000	(551,000)
3 Years	1,174,000	(764,000)
4 Years	993,000	(945,000)
5 Years	840,000	(1,098,000)

Diabetic Population	Valuation Result *(HK$'000)*	Difference *(HK$'000)*
+10 Million	2,130,000	192,000
+5 Million	2,035,000	97,000
—	***1,938,000***	—
–5 Million	1,842,000	(96,000)
–10 Million	1,746,000	(192,000)

Note: Totals may not foot due to rounding differences.

In addition, a study basing on 4 scenarios pertaining to a fluctuation of market share has been undertaken. This scenario study is conducted on the assumption that the market share of Oral Insulin for both Type 1 and Type 2 diabetics will increase or decrease 0.25% and 0.5% each year during the forecast period. The results of this scenario study are tabulated as follows:

Scenario	Market Share	Valuation Result *(HK$'000)*	Difference *(HK$'000)*
A	+0.50%	2,314,000	376,000
B	+0.25%	2,126,000	188,000
	0%	***1,938,000***	**—**
C	-0.25%	1,751,000	(187,000)
D	-0.50%	1,563,000	(375,000)

Note: Totals may not foot due to rounding differences.

The conclusion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the appraisal, you are urged to consider carefully the nature of such assumptions, which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in Smart Ascent Group nor the Company or the value reported.

Yours faithfully,
For and on behalf of
Castores Magi Asia Limited
Deret Au Chi Chung
Member of China Institute of Real Estate Appraisers and Agents
Registered Business Valuer of Hong Kong Business Valuation Forum
B.Sc. MRICS MHKIS RPS (GP) MCIArb AHKIArb
Director

ASSUMPTIONS AND ESTIMATES

(1) Total diabetic population in the PRC is about 98 million at Year 1 (operation to start at 1 October 2016) and will increase by at least 0.5 million every year in the projection periods.

(2) According to statistics of the World Health Organization (reviewed October 2013), type 2 diabetes which may be caused by obesity, physical inactivity is more common than type 1 diabetes, and accounts for approximately 90% of all diabetes worldwide. Childhood and adolescent obesity numbers are serious in the PRC. According to an article "Recommendations from the EGAPP Working Group: does genomic profiling to assess type 2 diabetes risk improve health outcomes?" published by the Evaluation of Genomic Applications in Practice and Prevention Working Group launched by the Centers for Disease Control and Prevention of the United States on 14 March 2013, up to 95% of all diabetes is considered type 2 diabetes. With reference to the above, the Company estimated that among the diabetes patients, about 8% of them belong to type 1 diabetes and 92% of them belong to type 2 diabetes.

(3) The market share of the Medicine on type 1 and type 2 diabetes patients is as follows: **<A>**

Year	Type 1 (%)	Type 2 (%)	For the six months ending	Type 1 (%)	Type 2 (%)
1	0.50	1.50	31.3.2017	0.25	0.75
			30.9.2017	0.25	0.75
2	0.80	1.80	31.3.2018	0.40	0.90
			30.9.2018	0.40	0.90
3	1.20	2.40	31.3.2019	0.60	1.20
			30.9.2019	0.60	1.20
4	1.50	3.20	31.3.2020	0.75	1.60
			30.9.2020	0.75	1.60
5	1.80	4.00	31.3.2021	0.90	2.00
			30.9.2021	0.90	2.00

The percentages of market share of the Medicine were estimated by the management's judgment and experience through exchange between researchers and physicians throughout the years of clinical trial, the management's knowledge of penetration of other new medicines in the PRC, with focus on the type 2 diabetic market and assumption that there is a potential growth trend in the type 2 diabetic population.

The Company considers that oral insulin is an unprecedented new drug and will be a new diabetes treatment method. There is not a comparable medicine having sold by the Group or other suppliers in the current market. Nevertheless, the Group has gained experience from the marketing of drugs newly launched to the PRC market such as GM-1 (a product for re-establishing functional recovery of central nervous system) and noted that a life cycle for a

drug in a new market could be longer than ten years depending on the product uniqueness and its growth potential could be affected by, among others, the population size of the target customers. The management also noted that and made reference to the history and development of other medicines for other therapies such as Cephalosporin antibiotic, which has been developed in the PRC since 1960s and continues to be a widely prescribed class of antibiotics in the market. In view of the above and that diabetes is a chronic disease, which usually requires long term medication with estimated target customers on a rising trend, the Company believes that the estimated market share is reasonable and achievable.

(4) Number of capsules (50 IU) to be taken by each diabetes patient, on average, per year is calculated as follows: **<B>**

Per Patient	**Per Day no. of capsules**	**Per Year no. of capsules**
Type 1	4	1,460
Type 2	2	730

		Grow at 0.5 million per year				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
		('000)	*('000)*	*('000)*	*('000)*	*('000)*
Total number of diabetes patients in total market — PRC <C>						
Total market	100%	98,000	98,500	99,000	99,500	100,000
Type 1 diabetes patients	8%	7,840	7,880	7,920	7,960	8,000
Type 2 diabetes patients	92%	90,160	90,620	91,080	91,540	92,000
		FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
		('000)	*('000)*	*('000)*	*('000)*	*('000)*
Market Share (number of diabetes patients) <D>						
<D> = <A> × <C>		**From Oct 2016**				
Type 1		20	51	79	107	132
Type 2		676	1,495	1,913	2,563	3,312
Total number of diabetes patients shared		696	1,546	1,992	2,670	3,444

		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
		('000)	*('000)*	*('000)*	*('000)*	*('000)*
Number of capsules (50 IU) to be taken <E> = <D> × <B>						
Type 1 diabetes patients		29,200	74,460	115,340	156,220	192,720
Type 2 diabetes patients		493,480	1,091,350	1,396,490	1,870,990	2,417,760
		522,680	1,165,810	1,511,830	2,027,210	2,610,480
Gross Profit in RMB	*Unit Price (RMB)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Per capsule (50 IU) Selling price cum VAT <E> @	2.75	1,437,370	3,205,978	4,157,533	5,574,828	7,178,820
Cost of sales	1.25	(653,350)	(1,457,263)	(1,889,788)	(2,534,013)	(3,263,100)
VAT (calculated at 17% in accordance with applicable tax policies)		(131,385)	(293,047)	(380,025)	(509,575)	(656,190)
Gross Profit		652,635	1,455,668	1,887,720	2,531,240	3,259,530

LETTER FROM THE REPORTING ACCOUNTANTS ON THE ACCOUNTING POLICIES AND CALCULATION FOR THE VALUATION

The following is the text of the report dated 27 June 2014 from the Company's auditors, East Asia Sentinel Limited, in connection with the valuation of the business of Smart Ascent Group as at 28 February 2014, prepared for the purpose of incorporation in this circular.

27 June 2014

The Board of Directors
Extrawell Pharmaceutical Holdings Limited
Suites 2206–08, 22/F.,
Devon House,
Taikoo Place,
979 King's Road,
Quarry Bay, Hong Kong

Dear Sirs,

In accordance with the instructions of the directors of Extrawell Pharmaceutical Holdings Limited (the "**Company**"), we have examined the principal accounting policies adopted in and the arithmetical accuracy of the calculations for the discounted cash flow forecast (the "**Forecast**") underlying the valuation (the "**Valuation**") of Smart Ascent Limited and its subsidiaries (the "**Smart Ascent Group**") performed by Castores Magi Asia Limited (the "**Valuer**") in respect of the appraisal of the fair value of the Smart Ascent Group as at the reference date of 28 February 2014 in connection with the circular of the Company dated 27 June 2014 (the "**Circular**").

Respective responsibilities of directors and East Asia Sentinel Limited

The directors of the Company are responsible for the preparation of the Forecast and the reasonableness and validity of the assumptions based on which the Forecast is prepared (the "**Assumptions**").

It is our responsibility to form an opinion based on our reasonable assurance engagement, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, on whether the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2013 and to report our opinion solely to you, as a body and for the purpose in connection with the Circular and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

The Assumptions include hypothetical assumptions about future events and management actions that may or may not necessarily be expected to occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Accordingly we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Basis of opinion

We conducted our reasonable assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 ''Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'' with reference to the procedures under Auditing Guideline 3.341 ''Accountants' Report on Profit Forecasts'' issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our work was performed solely to assist the directors of the Company to evaluate, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, whether the Forecast has been properly complied, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2013.

We planned and performed our reasonable assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give our opinion. Our reasonable assurance engagement included:

a. obtaining an understanding of the principal accounting policies adopted in the preparation of the Forecast through inquiry of persons responsible for financial and accounting matters;

b. comparing the principal accounting policies adopted in the preparation of the Forecast with those adopted in the preparation of the audited consolidated financial statements of the Company for the year ended 31 March 2013; and

c. checking the arithmetical calculations relating to the amounts presented in the Forecast.

We believe that our reasonable assurance engagement provides a reasonable basis for our opinion.

Our reasonable assurance engagement does not constitute an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or a review opinion on the Forecast.

Opinion

In our opinion, based on the foregoing, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2013.

Yours faithfully,
East Asia Sentinel Limited
Certified Public Accountants
Hong Kong

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

Executive Directors:
Dr. Xie Yi
Dr. Lou Yi
Mr. Cheng Yong
Ms. Wong Sau Kuen
Mr. Liu Kwok Wah

Independent non-executive Directors:
Mr. Fang Lin Hu
Mr. Xue Jing Lun
Ms. Jin Song

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Suites 2206–08, 22nd Floor
Devon House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

27 June 2014

To the Shareholders

Dear Sir or Madam,

CIRCULAR ON MAJOR AND CONNECTED TRANSACTION CONCERNING THE DISPOSAL OF 51% SHAREHOLDING INTEREST IN SMART ASCENT LIMITED

We refer to the valuation (the "**Valuation**") of Smart Ascent Limited and its subsidiaries (the "**Smart Ascent Group**") performed by Castores Magi Asia Limited (the "**Valuer**") in respect of the appraisal of the fair value of the Smart Ascent Group as at 28 February 2014 in connection with the circular of Extrawell Pharmaceutical Holdings Limited dated 27 June 2014 (the "**Circular**").

We have reviewed the financial forecast of Smart Ascent Group and the assumptions on which such financial forecast is made, upon which the Valuation under the valuation report as set out in Appendix II to the Circular is based. We hereby confirm that such financial forecast and assumptions have been made after due and careful enquiry by the directors of the Company.

Yours faithfully,
For and on behalf of the board of directors of
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Chairman

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) As at the Latest Practicable Date, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of the company/ associated corporation**	**Capacity**	**Number and class of securities** *(Note 1)*	**Approximate percentage of interests held**
Dr. Xie Yi	The Company	Interest of controlled corporation *(Note 2)*	80,000,000 Shares (L)	3.35%
Mr. Cheng Yong	The Company	Beneficial owner (830,000 Shares)	6,980,000 Shares (L)	0.29%
		Shares held by spouse (5,090,000 Shares)		
		Interest of controlled corporation (1,060,000 Shares)		

Notes:

(1) The letter "L" represents the Director's interests in the shares and underlying shares of the Company or its associated corporations.

(2) The entire issued share capital of JNJ Investments Limited is owned by Biowindow Gene Development (Hong Kong) Limited, and the entire issued share capital of Biowindow Gene Development (Hong Kong) Limited is owned by United Gene Group Limited. The issued share capital of United Gene Group Limited is owned as to 33% by Ease Gold Investments Limited. The issued share capital of Ease Gold Investments Limited is wholly owned by Dr. Xie Yi. Dr. Xie Yi is deemed to be interested in all the Shares in which JNJ Investments Limited is interested by virtue of the SFO.

(b) Save as disclosed in paragraph 2(a) above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were required pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) Saved as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2013 being the date to which the latest published audited financial statements of the Group were made up.

(d) Saved as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the date of this circular which is significant in relation to the business of the Group.

(e) As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

3. SUBSTANTIAL SHAREHOLDERS

(a) As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Number of Shares *(Note 1)*	Capacity	Approximate percentage of interests held
United Gene	1,350,000,000 Shares (L)	Beneficial owner *(Note 2)*	56.49%
Dr. Mao Yumin	398,100,000	Beneficial owner (318,100,000) *(Note 3)*	16.66%
		Interest of controlled corporation (80,000,000) *(Note 4)*	
Mr. Ong Cheng Heang	200,000,000 Shares (L)	Beneficial owner *(Note 5)*	8.37%
	100,000,000 Shares (S)	Beneficial owner *(Note 6)*	4.18%

Notes:

(1) The letters "L" and "S" represent the entity's interests in, and short position in, the Shares, respectively.

(2) Among these 1,350,000,000 Shares, (i) 450,000,000 Shares represent the Shares to be transferred from JNJ Investments Limited to United Gene pursuant to the sale and purchase agreement entered into between Dr. Mao, Yumin ("**Dr. Mao**") JNJ Investments Ltd. and United Gene on 27 April 2013 (the "**UG SP Agreement**") in connection with the proposed acquisition of Shares and the zero coupon 20 years convertible bonds for an aggregate principal amount of HK$641,300,000 issued by the Company on 16 July 2013 (the "**2013 Convertible Bonds**") by United Gene; (ii) 500,000,000 Shares represent the Shares to be allotted and issued to United Gene upon exercise in full by United Gene of the conversion rights under the 2013 Convertible Bonds to Dr. Mao and to be transferred to United Gene pursuant to the UG SP Agreement; and (iii) 400,000,000 Shares represent the Shares to be allotted and

issued to United Gene upon exercise in full by United Gene of the conversion rights attached to the 2013 Convertible Bonds to be issued to Mr. Ong Cheng Heang ("**Mr. Ong**") and to be transferred to Dr. Mao pursuant to the pursuant to the subscription agreement entered into by Dr. Mao and Mr. Ong on 28 February 2013 and to be further transferred to United Gene by Dr. Mao pursuant to the UG SP Agreement.

(3) Among these 398,100,000 Shares, 200,000,000 Shares represent the conversion shares to be allotted and issued to Dr. Mao upon exercise in full by Dr. Mao of the conversion rights attached to the 2013 Convertible Bonds with the principal amount of HK$128,260,000 and 100,000,000 Shares represent the remaining balance of conversion shares to be allotted and issued to Dr. Mao upon exercise in full by Dr. Mao of the conversion rights attached to the 2013 Convertible Bonds to be issued to Mr. Ong and to be transferred to Dr. Mao upon the exercise of the call option in full by Dr. Mao pursuant to the subscription agreement entered into by Dr. Mao and Mr. Ong on 28 February 2013.

(4) The entire issued share capital of JNJ Investments Limited is owned by Biowindow Gene Development (Hong Kong) Limited, and the entire issued share capital of Biowindow Gene Development (Hong Kong) Limited is owned by United Gene Group Limited. The issued share capital of United Gene Group Limited is owned as to 33% by United Gene Holdings Limited. The issued share capital of as to 33% by United Gene Holdings Limited is wholly owned by Dr. Mao. Dr. Mao is deemed to be interested in all the Shares in which JNJ Investments Limited is interested by virtue of the SFO.

(5) Among these 200,000,000 Shares, (i) 100,000,000 Shares represent Shares issued by the Company on 5 August 2013 upon exercise by Mr. Ong at the conversion price of the conversion rights attached to the 2013 Convertible Bonds with principal amount of HK$64,130,000, and (ii) 100,000,000 Shares represent the conversion shares to be allotted and issued to Mr. Ong upon exercise in full by Mr. Ong at the conversion price of the conversion rights attached to the 2013 Convertible Bonds with the principal amount of HK$64,130,000.

(6) These 100,000,000 Shares represent the remaining balance of conversion shares to be allotted and issued to Dr. Mao upon exercise in full by Dr. Mao of the conversion rights attached to the 2013 Convertible Bonds to be issued to Mr. Ong and to be transferred to Dr. Mao upon the exercise of the call option in full by Dr. Mao pursuant to the subscription agreement entered into by Dr. Mao and Mr. Ong on 28 February 2013.

(b) As at the Latest Practicable Date, so far as is known to the Directors, the following persons were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company):

Name of the company	Name of shareholder	Number of shares/ amount of registered capital held	Approximate percentage of interests held
Changchun Extrawell Pharmaceutical Co., Ltd.	吉林省新天和對外經濟貿易集團有限公司	RMB9,140,000	18%
Grand Success Management Limited	Charmtex Investments Limited	10,000 shares of US$1 each	20%
Fosse Bio	Groupmark Investment Group Limited	2,450 shares of HK$10 each	24.5%
Fosse Bio	Fordnew Industrial Limited	2,450 shares of HK$10 each	24.5%
Welly Surplus	Smart Allied Holdings Limited	29 shares of HK$1 each	29%
Welly Surplus	Goachieve Holdings Limited	20 shares of HK$1 each	20%

Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, there was no other person who had an interest or short position in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

The Company announced on 12 June 2014 ("**Positive Profit Alert and Clarification Announcement**") that based on the preliminary assessment on the unaudited consolidated management accounts of the Group for the year ended 31 March 2014 ("**Management Accounts**"), the consolidated equity attributable to equity holders of the Company as at 31 March 2014 is expected to record a significant decrease as compared with the balance as at 31 March 2013, which is mainly due to, among other things, the record of excess of investment costs over the Group's share of 49% of the fair value of non-controlling interests in Smart Ascent Limited as completed in July 2013 as equity transaction (other than goodwill) in accordance with the requirements of Hong Kong Financial Reporting Standards, notwithstanding the increase in equity as a result of (i) a significant increase in profit attributable to equity holders, (ii) share premium on shares converted pursuant to the convertible bonds issued by the Company, and (iii) the record of equity component of convertible bonds as disclosed in the Positive Profit Alert and Clarification Announcement. The Positive Profit Alert and Clarification Announcement also made references to the interim report ("**Interim Report**") and interim results announcement ("**Interim Results Announcement**") for the six months ended 30 September 2013 of the Company as published on 12 December 2013 and 29 November 2013 respectively and the Board had drawn the attention of Shareholders and potential investors to pages 2 and 3 of the Interim Report and pages 1 and 2 of the Interim Results Announcement of the Group's unaudited condensed consolidated statement of financial position as at 30 September 2013, in which after recording the goodwill of approximately HK$598,349,000 in the reserve attributable to equity holders of the Company other than in non-current assets, the balance of the aforesaid reserve should be stated as HK$297,071,000 instead of HK$895,420,000 and the aggregate balance of non-current assets should be stated as HK$449,058,000 instead of HK$1,047,407,000. Accordingly, the total assets and the total equity of the Company are both being reduced by HK598,349,000 to HK$755,494,000 and HK$456,808,000 respectively. For more details, please refer to the Positive Profit Alert and Clarification Announcement.

Saved as disclosed above, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2013, being the date to which the latest published audited financial statements of the Group were made up.

6. LITIGATION

As at the Latest Practicable Date, the Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(a) Supplemental Agreement dated 23 February 2013 entered into between Extrawell BVI as purchaser and Mr. Ong Cheng Heang as vendor to amend certain terms and conditions of the conditional sale and purchase agreement entered into by the parties on 27 July 2007 in connection with the proposed acquisition of the 4,900 shares in Smart Ascent Limited;

(b) the capital injection and subscription agreement dated 25 April 2013 entered into between (i) 東龍脈(上海)健康管理服務有限公司, an indirect wholly-owned subsidiary of United Gene, as shareholder; (ii) Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("**Jilin Extrawell**"), as shareholder; (iii) 龍脈(上海)健康管理服務有限公司 ("**Shanghai Longmark**"), as target company; and (iv) Dr. Xie Yi, a director of the Company and a beneficial owner of a controlling shareholder of United Gene, as subscriber, in relation to the injection of capital of RMB7.49 million by Dr. Xie Yi as consideration to subscribe 37.47% of the registered capital of Shanghai Longmark as enlarged by the capital injection and subscription;

(c) Building and land transfer agreement dated 6 August 2013 entered into between Jilin Extrawell as vendor and Jilin Science and Technology Information Research Institute as purchaser regarding disposal of production facilities; and

(d) the Disposal Agreement.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

(a) The following are the qualifications of the experts who have given their reports, opinions or advice which are included in this circular:

Name	Qualification
Castores Magi	Registered Professional Surveyors
East Asia Sentinel Limited	Certified Public Accountants
Quam	Licensed corporation under the SFO to carry on type 6 (advising on corporate finance) of the regulated activities and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal

(b) None of Castores Magi, East Asia Sentinel Limited and Quam has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Castores Magi, East Asia Sentinel Limited and Quam has given and has not withdrawn its written consent to the issue of this circular, with copies of its letter and/or reports and the references to its name included in the forms and contexts in which they are respectively included.

(d) None of Castores Magi, East Asia Sentinel Limited and Quam had any direct or indirect interest in any asset which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2013, being the date to which the latest published audited financial statements of the Group were made up.

9. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Suites 2206–08, 22nd Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(c) The joint company secretaries of the Company are Mr. Liu Kwok Wah and Ms. Wong Sau Kuen. Mr. Liu Kwok Wah is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Suites 2206–08, 22nd Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, up to and including the date of the SGM:

(a) the Disposal Agreement;

(b) the memorandum and bye-laws of the Company;

(c) the letter from the Independent Board Committee, the text of which is set out on page 49 of this circular;

(d) the letter from Quam, the text of which is set out on pages 50 to 89 of this circular;

(e) the valuation report issued by Castores Magi, the text of which is set out in Appendix II to this circular;

(f) the letter issued by East Asia Sentinel Limited, the text of which is set out in Appendix II to this circular;

(g) the material contracts referred to in the section headed "Material Contracts" of this appendix;

(h) the letters of consent referred to in the section headed "Qualifications and Consents of Experts" in this appendix;

(i) the annual reports of the Company for the two years ended 31 March 2012 and 2013; and

(j) this circular.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

NOTICE IS HEREBY GIVEN that a special general meeting of Extrawell Pharmaceutical Holdings Limited (the "**Company**") will be held at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Tuesday, 15 July 2014 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the execution of the Disposal Agreement dated 17 March 2014 (the "**Disposal Agreement**", a copy of which is marked "A" and initialed by the chairman of SGM for identification purpose and tabled at the SGM) entered into between Extrawell (BVI) Limited (the "**Vendor**"), and Clear Rich International Limited (the "**Purchaser**") in relation to the disposal of 5,100 ordinary shares of HK$1 each in the issued share capital of Smart Ascent Limited (the "**Target Company**"), representing 51% of the total issued capital of the Target Company at the consideration of HK$780,000,000, pursuant to which the Purchaser has conditionally agreed to (i) pay in cash the sum of HK$65,000,000 to the Vendor; and (ii) procure United Gene High-Tech Group Limited ("**United Gene**") to issue and the Vendor has agreed to subscribe for the convertible bonds in the principal amount of HK$715,000,000 with a maturity date of 7 years from the date of issue with an interest of 3.5% per annum and the right to convert at the conversion price of HK$2.50 (subject to adjustments) per conversion share for a conversion period up to the date of maturity (the "**Convertible Bonds**") and the transactions contemplated thereunder be and are hereby approved, ratified and/or confirmed;

(b) the directors of the Company (the "**Directors**") are hereby authorized to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivering all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or give effect to the terms of, or the transactions contemplated by the Disposal Agreement and the exercise of the conversion rights attaching to the Convertible Bonds and to agree to such variation,

* *For identification purpose only*

amendments or waiver of matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Disposal Agreement and all transactions contemplated thereunder and are in the interests of the Company.''

By order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Chairman

Hong Kong, 27 June 2014

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Suites 2206–08, 22nd Floor,
Devon House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

Notes:

(1) A member entitled to attend and vote at the meeting convened by the above notice or any adjournment thereof is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

(2) A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time for holding the meeting or any adjournment thereof.

(3) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(4) In the case of joint holders of a Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she/it was solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(5) For the purpose of determining members who are qualified for attending the above meeting, the register of members of the Company will be closed from 14 July 2014 to 15 July 2014 (both days inclusive) during which period no transfer of the Shares will be effected. In order to qualify for attending the above meeting or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 11 July 2014.

(6) This notice has been printed in English and Chinese. In the event of any inconsistency, the English text of this notice shall prevail over its Chinese text.

As at the date of this notice, the executive Directors are Dr. Xie Yi, Dr. Lou Yi, Mr. Cheng Yong, Ms. Wong Sau Kuen and Mr. Liu Kwok Wah and the independent non-executive Directors are Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song.